ANNUAL REPORT

Year ended 30 November 2020

IPSWICH
BUILDING SOCIETY

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Chairman's Report

Despite the impact of COVID-19 on all UK businesses Ipswich Building Society has remained firmly open for business. We have seen continued growth in mortgages and improved our capital position, whilst continuing to deliver exceptional service to members thanks to outstanding levels of colleague engagement and maintaining our ongoing support to our communities.

The year has clearly been dominated by the COVID-19 pandemic which has brought concerns about health and wellbeing for many of our members as well as having a significant economic impact. The efforts to control the pandemic have been considerable and I would like to thank all key workers in the UK for everything they have done for us during this time; their spirit and hard work has been inspirational.

I have been very proud of the way our Society has worked hard to keep everyone safe whilst maintaining a great service to our members. I thank our teams, throughout the branches and in Head Office, for their wonderful efforts. They have shown an unwavering focus on supporting our members and each other and genuinely putting our values into action.

COVID-19 has impacted all of our stakeholders including our members, our colleagues and our communities. We've responded quickly and carefully to all the challenges we have faced and believe that we have successfully managed the business through these unprecedented pressures with the decisions made ensuring a prudent yet creative approach built on the Society's ongoing business resilience.

We have continued to serve our members since the start of the lockdown in the UK and continue to do so. We have processed 574 payment deferral applications, which have helped to make personal finances a little bit easier to manage especially where members have seen reductions in their incomes.

We responded quickly to the Government's early changes to "essential businesses" and successfully introduced new ways of working including investing in key capabilities to enable our teams to serve members and partners safely. Over 83% of our Head Office colleagues have been able to work from home, allowing safe distancing for those who have remained in our offices. No employees have been furloughed and we have worked closely with our team members to ensure that everyone has received strong levels of support through this time of uncertainty and change.

Delivering service in this way would not have been possible without the investments in technology we have made in recent years. This has been essential to support more effective remote working allowing team members to stay connected whilst working apart. All of our branches and Head Office buildings were made Covid-secure with the introduction of key safety measures across our sites. Therefore we feel we have thoroughly tested the resilience of our business. Thank you to everyone in all of our teams for supporting our members, our partners and our communities in such a difficult year.

Against this backdrop the overall results of the business also demonstrate our strengthened resilience. Highlights of the year were:

- Strong targeted mortgage completions of £123m (2019: £115m). Our targeted approach delivered a strong net interest margin of 1.8% (2019: 1.8%) on a total book of £568m at year end (2019: £523m).
- Savings balances increased by £21m taking overall deposits to a pleasing £624m (2019: £603m).
- Despite the pressures of the pandemic we recorded continued supportive feedback from members, with the Society's overall Net Promoter Score holding firm at 82 (2019: 83).
- With many members planning well, after initially using the pandemic payment holiday facility, we have recorded a strong arrears performance. Although we have strengthened our reserves in this area we record at year end that there are only 13 (2019: 7) mortgage accounts with a value of £1.8m (2019: £1.2m), where the arrears where the equivalent of 12 months' payments or more.
- Strong capital and liquidity strength. The Society's leverage ratio remains at 5.1% and the Liquidity Coverage Ratio of 195% (2019: 242%) remains considerably above the minimum requirement.
- Employee engagement score. The Society utilises an anonymous survey to measure employee engagement. The Society's engagement score remained in the "engaged" zone throughout 2020.

In such a difficult year it has been absolutely right that we have maintained a strong focus on governance and sound management. We have adapted procedures and found new ways of working together and the Society's Enterprise Risk Management Framework (ERMF) has been an immense asset as we acted in response to the requirements of both our regulators and to the pandemic itself. Our continued focus over previous years on the critical areas of operational resilience, stress testing and credit risk has proved invaluable in informing our response to COVID-19 and the challenging business environment it has created.

Our governance and oversight are all about ensuring that the Society takes risks within appetite and that these risks are understood and are effectively managed. A strong and effective Board is instrumental in this respect and during the year a number of changes took place.

We said goodbye to our Deputy Chairman Peter Elcock who left the Board in March 2020. Peter joined the Board in 2014 and has been a strong influence in building the modern Ipswich Building Society. His financial acumen and wide experience in the lending market have been invaluable in improving our governance. His extensive and wide-ranging knowledge of Risk Management and systems and controls shaped the Society's thinking as we modernised our procedures. As Peter now focusses on his increased executive management responsibilities, we wish him well for the future.

Last year we announced that Trevor Slater had given notice with effect from May 28th. We thank Trevor for his substantial contributions to the Society's financial management and are delighted to welcome to the Board his successor as Finance Director, Paul Johnson. Paul joined us in June, during the pandemic. He brings with him considerable experience in financial services having held a number of senior roles in financial services organisations.

In April 2020 we were delighted to welcome Sian Hill to the Board. Sian was a partner at KPMG for many years including over twenty years as a financial services tax partner advising a broad range of financial institutions.

The pandemic will affect us all for many months to come. It has already changed virtually everything for all of our members, partners, staff and communities and has tested business resilience to the maximum. Government plans for the vaccination programme have begun but, at least for the first 6 months of 2021, we anticipate another challenging environment.

Despite the incredibly low interest rate position, UK savings balances continue to grow – at the time of writing increasing at 3 times the rate they were increasing during the same period last year, due to spending being curtailed in the pandemic. The Society will continue in its mission to provide a safe home for our members' savings.

In the housing market, it is difficult to predict the level of consumer confidence. It has been boosted somewhat by the announcement of the Stamp Duty holiday as well as post-lockdown related demand. Job insecurity will clearly be a factor in the next year and a rise in unemployment is one of the biggest potential risks to the stability of the property market in 2021 even though the Government's furlough scheme will now be maintained until April.

In a recent survey however, more than 9 in 10 mortgage borrowers expressed confidence that they would be able to make their own mortgage payments at least for six months. So there are grounds for some optimism that arrears may not deteriorate to the levels many are predicting.

So for the early part of the year the market will still be dealing with the demand created by the Stamp Duty holiday and the capacity constraints in completing the surveys, valuations and searches in a Covid-secure way before the 31 March deadline. If the Government does opt to taper off the deadline, possibly for 3 months, then this will also bring increased stability.

Looking ahead, there are significant concerns around job security, and whilst households currently remain confident in their own personal finances, lenders will continue to support those who face payment difficulties, including accepting requests for mortgage payment deferrals up to 31 March 2021.

A final reflection on the year is that the Mutual Building Society model, as represented here at the Ipswich, has shone through in the extraordinary time of the pandemic. We have opened our branches, we have maintained service levels to our intermediary partners and we have been prominent in supporting our communities. We have done so thanks to the people who make Ipswich Building Society so special – our staff and management in all the teams throughout the business. They have stepped up and made a difference – to each other and to our members.

I would therefore like to thank all my colleagues on the Board for their hard work and unstinting support but especially thank the Society's employees for their valued personal and team contributions. It has been an extraordinary year in which you have done extraordinary things. Thank you.

Alan Harris
Chairman
4 February 2021

Chief Executive's Report

Introduction

Last year I wrote "in the space of just a year the political and economic landscape has changed dramatically". Little did any of us know what was around the corner for 2020 and the far-reaching effects of the COVID-19 pandemic.

Over the past months the Society's priority has been to support our members and staff, continuing to deliver our services as safely as possible and remotely where we can. For essential transactions and those who needed to visit us in person we have been able to maintain branch services in each of our locations, ensuring our premises are Covid-secure. Additionally, we have supported staff to work from home and continue to do so.

Economic

The country entered 2020 in a fragile state with the slowest growth for almost a decade, dominated by negotiations over the UK's exit from the EU. Twelve months on, the scale of economic impact caused by the COVID-19 pandemic is unprecedented in modern times, with the UK's GDP 25% lower during the depth of the crisis in April than it was only two months earlier in February. Although economic activity picked up over the spring and summer, the UK is set for a slow recovery over an extended period to return to pre-pandemic levels.

In a move to stimulate the housing market, the Government's stamp duty holiday, in place from 8 July 2020 to 31 March 2021, incentivised house buyers with a zero rate of tax for the first £500,000 of residential purchases. In an environmental initiative, linked to the housing market, the Green Homes Grant which launched in September enabled homeowners to apply for up to £10,000 to make energy efficient changes to their home – this is a key focus for the Government and I expect we will see more activity in this area.

The Bank of England announced two out-of-cycle reductions to the base rate in March, to a new historic low of 0.1% and, as savings interest rates have remained at low levels for some time, these rate cuts leave very little scope for further reductions. Following the announcement, we were pleased to reassure our saving members they would still be receiving an interest rate equal to or above the Bank of England base rate. This decision did mean, on the other side of our book, whilst we decreased our mortgage Standard Variable Rate (SVR) we were unable to pass on the full rate reduction to our borrowers. Our responsibility to our savers and borrowers is to make informed, responsible decisions about our rates and this will always be at the forefront of any action we take.

Discussion over the Bank of England base rate is ever present, with October bringing a round of speculation about a potential negative Bank rate. All savings institutions were approached by the regulator to explore the feasibility of implementing this potential action, as a preparatory measure and in no way a precursor to any formal decision. It is important to acknowledge the base rate is just one factor that influences variable savings and mortgage interest rates, and evidence from other countries where the Central Bank has implemented negative rates shows that the impact is not straightforward.

Savings and branches

I am pleased to report our branches remained operational during the year, providing an essential service to our members. During the early stages of the first lockdown we took the temporary decision to open branches on alternate days, to ensure we would have adequate resources in place to keep all branches open on a regular basis and to ensure we were able to continue to serve our members.

We quickly implemented safety measures throughout our branches and in our Head Office, conducting risk assessments and ensuring our premises were Covid-secure in line with the evolving guidelines. We took extra steps to ensure the safety of members and staff, such as dedicating afternoon sessions to only hosting vital face to face appointments in branch banking halls, ensuring adequate social distancing in a private and confidential environment.

During our financial year we maintained a varied product offering for both existing and new members and introduced new products where we were able to, which proved useful to our savers and resulted in 3,017 new accounts opened plus 1,446 new savings members welcomed to the Society.

In September we started to see the first Child Trust Fund account holders reach 18 and access their funds. These were introduced by the Government for children born between 1 September 2002 and 2 January 2011 as a method of long-term, tax free savings. We are writing to all account holders ahead of their 18th birthday to outline available options.

We rolled out electronic withdrawals to enable members to quickly and safely move money from their Society account into their previously nominated current account. This is available Monday to Friday as a free, next working day transfer and makes it easier to access and manage accounts held with us.

Whilst our usual branch outreach and local support activities were understandably suspended, we remained avid supporters of our communities. Our branch on Hadleigh high street played host to two external wall murals, firstly commemorating the 75th anniversary of VE Day in May, followed by the 75th anniversary of VJ Day in August.

Nurturing communities

As a long-term supporter of Suffolk Community Foundation we have been pleased to assist with their Rebuilding Local Lives appeal, which they launched at the start of the pandemic having seen the profound effect on local communities. The campaign reaches the most vulnerable in the county, helping people to "Stay Warm, Stay Well and Stay Connected" and I am delighted that during the year our branches collected over £2,000 in donations.

The Society has also supported the Hearing Care Centre's initiative for people with hearing loss who, due to the wearing of face masks, have found themselves unable to lip read when having a conversation or carrying out a task – making even simple trips like going to the shop a taxing experience. To help, our branches stocked the "Please Speak Clearly" pin badges which alert people that the wearer has hearing loss and may need additional assistance.

During the year we announced our sponsorship of Shop Suffolk, an online platform championing local retailers which promotes keeping money circulating within Suffolk's economy and having a positive impact on employment.

Mortgages and home ownership

The Financial Conduct Authority (FCA) implemented new measures in March providing financial support to those whose finances have been affected by COVID-19, with mortgage lenders required to offer payment deferrals up to a maximum of six months. We were able to assist with over 6,500 telephone and email enquiries which resulted in the Society receiving, agreeing and arranging 574 applications for payment deferrals. Of the original three-month deferrals, 128 opted for the further three-month extension and as at the end of November 98.6% of all COVID-19 payment deferrals had ended.

A significant impact on the property market during the early stages of the COVID-19 outbreak was the inability for valuers to visit properties – their independent report gives mortgage lenders the assurance that the property will provide adequate security for the loan. Once valuers were able to implement precautions to visit properties again the market picked up, albeit offering lower Loan To Values (LTVs) than previously.

We then witnessed unprecedented demand as we remained an active lender. By closely monitoring the changing market we were able to make swift, considered decisions on when to withdraw and re-enter specific product ranges. This included being able to return to 90% LTV lending for a limited time when borrowers faced restricted options in the market. A careful, balanced approach resulted in the growth of the mortgage book of 9% to £568m [2019: £523m], lending within our risk appetites and ultimately giving support to people throughout England and Wales seeking to buy, remortgage or even build their own home.

Intermediaries

Our intermediary partners remain a vital and valued part of our mortgage business. With 92% of applications coming from our intermediaries we will continue to nurture this market and champion the role of professional, independent mortgage advisers.

During the year we focused on supporting our intermediaries whilst they adapted to new working practices and a fast-moving market. We were able to conduct meetings by video and remotely attended conferences to increase awareness on our offering, demonstrating how we can continue to assist with their clients.

Internally we reassigned our sales team to more closely align with our network coverage and geographical reach. By reallocating resource we have been able to provide improved service to our brokers both in terms of access to a business development manager and also through our dedicated helpdesk.

To increase the availability of our products we forged three new relationships with network partners in the year, joining the lending panels of Brilliant Solutions, TMA and Dynamo as well as lifting our previous postcode restriction with Paradigm. The Society was also added to the Affordability Hub platform for brokers to easily search and identify lenders by criteria.

Employees

Our employees have responded to constant change and new working practices as a result of the COVID-19 pandemic, whilst managing high levels of enquiries both for our mortgage and savings products. I am incredibly proud of the adaptability, resilience and commitment of staff across our branch network and Head Office whilst being mindful of the significant disruption of the past year. Mental health and wellbeing has been a core focus, working closely with Suffolk Mind to ensure support and resources have been made available during the year, such as remote training sessions for Sleep Well and an online resource toolkit. We have introduced additional social activities for staff such as a virtual choir and quizzes.

Chief Executive's Report continued

We supported people to work from home, both for the vast majority of Head Office employees and those in branches who needed to work from home to shield for health purposes.

I can confirm the Society did not furlough any staff and even recruited throughout the pandemic, both replacing leavers and creating new roles to support our business. We were pleased to be able to offer job opportunities in the local market, making use of video interviews and holding socially distanced/remote inductions.

A sustainable Society

As we have seen this year, even in a changing environment, the Society has adapted to the evolving market and undertaken considered, but timely, actions to both protect and grow our business. Our core aim is to ensure the Society is run prudently and this remains a long-term strategy.

The Society is making good progress with our digital strategy, with work underway on core projects such as an online mortgage origination platform and digital savings.

This coming year will see a landmark event when we change our name to Suffolk Building Society. This was proposed at our 170th AGM on 25 March 2020 with 92.8% of members approving the change. We continue to work towards implementing this change at an appropriate time. This new name and visual identity will give us more relevance in our wider county, help to increase our geographic reach and also ensure we provide a consistent experience whether our members visit us in person or online. This will be crucial to the future sustainability of the Society.

I look forward to the coming year and the start of a new era where we're able to connect to a broader community whilst remaining proud of our roots in the county we serve. Thank you for your continued support.

Richard Norrington
Chief Executive
4 February 2021

Directors' Report

The Directors have pleasure in presenting the 171st Annual Report and Accounts for the year ended 30 November 2020.

This report sets out the Society's progress against its strategy and provides information of the Society's performance against key performance indicators. The contents of this report should be read in conjunction with the Chairman's and Chief Executive's Reports.

The Society's performance in the last year has been impacted by the external and internal effects of the COVID-19 pandemic and the uncertainty surrounding the United Kingdom's withdrawal from the European Union. However, the results for the year ended 30 November 2020 represent another year of strong mortgage sheet growth, matched with appropriate levels of profitability to support the Society's capital position.

Business objectives and activities

The Society brings savers and borrowers together for their common benefit. Offering simple and straightforward savings products to investing members and providing mortgages so that borrowing members can buy a home have been the Society's main purposes for 171 years and continue to be so.

We need to carefully balance the need to retain sufficient earnings to ensure the sustainability of the Society for the members, employees and local community, whilst recognising that it is important to still invest in the business.

Business review

The Society ended the year with a profit before tax of £1.9m (2019: £1.9m). In addition, the Society's retail savings have grown significantly by £21m.

The service provided by the Society is considered to be an essential service and as a result the Society's branch network has remained open to members throughout the COVID-19 pandemic. However, the pandemic and resulting restrictions meant that the Society had to quickly adapt to changes in working environments. This included moving a significant number of employees to home working, as well as implementing procedural changes to ensure that the Society could continue to meet the needs of its members. The Directors would like to express their sincere thanks to all Society employees who continued to work throughout the pandemic in unprecedented circumstances. In fact, despite those challenges the Society's mortgage asset increased by £45m in the year and retail savings have grown to £624m. The Society's branch network has always provided an invaluable face to face service to our members and it has continued to do so. However, we have recognised the need of our members to conduct activities in alternative ways and therefore have seen a significant increase in the number of transactions that have been conducted via post, email or on the telephone. The Society has also introduced the ability for members to conduct electronic transfers to a nominated bank account.

This year the Society had planned to make a number of investments in its IT infrastructure, including the commencement of a digital improvement journey. Last year, the Society informed members that we were to embark on a project for online savings. In order to do this, it is important that the Society has the right digital infrastructure in place. The digital improvement journey has started with the commencement of a project to replace the Society's mortgage origination system. The Society has also continued to invest, develop and improve IT security and increase the reliability of Management Information. These improvements are all crucial to the Society's movement towards the development of online savings. The development of a digital offering to members and other key stakeholders is key to ensuring the Society's relevance and sustainability.

The Society has continued to focus its efforts on its strategic aim to offer carefully crafted products that are intended to meet the needs of customers who may otherwise find it difficult to obtain a mortgage from larger organisations. This means the mix of the different types of lending that the Society has to offer remains varied. Amongst the type of products that the Society offers are Self-Build, Expat and Later Life mortgages. Our individual underwriting of each mortgage means that we are able to assess applications on a case-by-case basis and our Lending Team continues to operate a flexible manual approach with a view to helping as many people as possible. The Lending Team processed 1,339 mortgage applications in 2020 (compared to 1,050 applications in 2019). This resulted in 620 completions for the year (2019: 633) with an average loan size of £199k (2019: £181k). The Society continues to monitor and publish service levels to internal and external customers.

During the year the Society has widened and refocussed its intermediary distribution to maximise efficiency and build a basis for account management. While events such as broker breakfasts and mortgage club and network roundtables have ceased across the industry, the Society's Business Development Managers have been busy attending virtual events. These have been organised as replacements by our partners, in addition to organising our own events in December (virtually of course) to mark the end of 2020 and to thank our key firms for their continued support.

This year the work carried out by our Collections Team has been vital to the support that we have been able to provide to our members who may have been experiencing payment difficulties. As a result of the COVID-19 pandemic, payment deferrals were introduced, and the Society was able to quickly establish a new process for dealing with deferral applications and other queries from concerned members.

The Society's resources in this area have been increased to ensure that the Society is well prepared for future potential economic downturn, and in particular the effects of the future withdrawal of Government financial support provided as a result of the pandemic. In addition, the economic effects of Brexit are still unknown.

Each month the Collections Team writes to, and calls, borrowers with Interest Only mortgages that have 5 years, 2 years, 1 year or 1 month remaining on their term. The overall response rate to these reminders was 80%.

Directors' Report continued

The Society is fiercely committed to being a membership-owned organisation. We are committed to act in our members' best interests and believe that an active and engaged membership is key to a successful, secure future for mutual organisations. The COVID-19 pandemic has meant that the Society has had to suspend our All-In programme of member events for the time being. However, we plan to actively re-engage with our members in this manner as soon as restrictions allow.

Looking ahead

The Directors are committed to ensuring the long-term sustainability of the Society and have in place a three-year corporate plan which is dedicated to maintaining the Society as an independent mutual society. The Society's mission is to support people in our community to buy a home and save for the future by providing carefully crafted products and attentive service.

At the AGM in March 2020 the members passed a resolution to change the Society's name to Suffolk Building Society. The Society hopes to implement that name change along with a refreshed brand over the next 12 months. The Society has appointed an agency to work with us to replace our existing web site. The launch of the new site is planned to coincide with our rebranding and will improve our efficiency as well as providing improved online information and access for our direct and intermediary customers.

The Society's digital improvement journey will continue in 2021. The next stage is the launch of the new mortgage origination system which is due to go live in Q4 2021. The Society will then move into a project to provide a digital online savings offering to complement the Society's branch network. We also plan to extend our ability to accept payments from savers by debit cards in 2021. The safety of members' savings is paramount, and the Society will take time to develop the online channel and will ensure that necessary protections are in place to guard against potential threats.

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 our own judgment to assess outgoings and affordability. Maintaining administrative expenses to an appropriate level is important for the sustainability of the Society and the Society is committed to ensuring that its processes are efficient as possible to maintain control of costs. The Society remains an active participant in the Bank of England's Sterling Monetary Framework (SMF) and alongside many other financial institutions, participated in the Bank of England's Term Funding Scheme. At 30 November 2020 amounts borrowed under this Scheme amounted to £30m (2019: £30m). On 11 March 2020 the Bank of England launched the Term Funding Scheme with additional incentives for SMEs (TFSME), providing four-year funding – subject to meeting certain criteria – at interest rates at or very close to Bank rate. As an SMF participant the Society is eligible to participate in this scheme and has made an application to draw down on this facility with some of the funds used to refinance existing TFS borrowings.

Key Performance Indicators

Key Performance Indicator	2018	2019	2020
Mortgage asset (£m)	536	523	**568**
Mortgage advances (£m)	107	115	**123**
Arrears cases over 12 months	9	7	**13**
Retail savings balances (£m)	572	603	**624**
Profit before tax (£m)	3.3	1.9	**1.9**
Management expenses (£m)	9.3	9.9	**9.9**
Total regulatory capital (£m)	37	35	**37**

Mortgage asset and mortgage advances

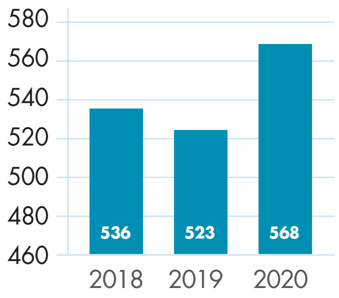
The Society's lending proposition is to provide mortgages both through a network of approved mortgage brokers and directly from the Society. The Society does not use credit scoring as all loans are individually underwritten by our underwriters. The Society's mortgage book increased by £45m during the year. The Society had a strong mortgage performance to start the year which was then followed by an initial fall in application numbers at the start of the COVID-19 pandemic as the house-moving market was shut down. The majority of mortgage growth for the year was the result of a very buoyant property market following the lifting of the first COVID-19 lockdown restrictions and the introduction of the stamp duty relief assistance. The Society had to carefully manage product offerings to ensure that the Society was able to operationally manage the level of business received and to ensure service levels remained acceptable within the market.

The Society is entering 2021 with a very healthy pipeline. The expectation is that growth in the book should be strong in the first few months of 2021 as the pipeline benefits start to come through. However, the Society recognises that future activity within the property market remains uncertain, in particular the ongoing effect of the pandemic on the economy and the impact of plans to end the stamp duty holiday at the end of March.

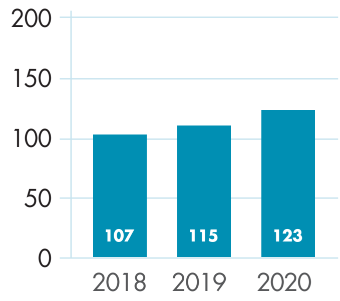
Arrears

The Society arrears levels currently remain low and below the Society's risk appetite. However, the Society acknowledges the financial impact that the COVID-19 pandemic may have on members. The Society has a dedicated Arrears Team which aims to support members with payment difficulties with a sympathetic approach and aims to agree sensible and affordable payment arrangements with those borrowers wherever possible to enable them to manage their payments. During the year the FCA introduced the concept of payment deferrals for up to six months for those borrowers who were in financial difficulties as a result of COVID-19. As at 30 November 2020, the Society has received 574 payment deferral requests. Of these, 472 had resumed full payment with a further 45 accounts either cancelling the payment deferral request or the borrower redeeming the mortgage.

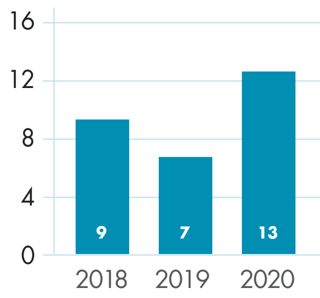
Mortgage assets (£m)



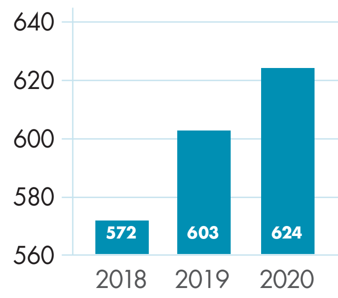
Mortgage advances (£m)



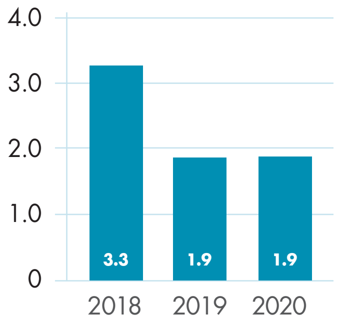
Arrears cases



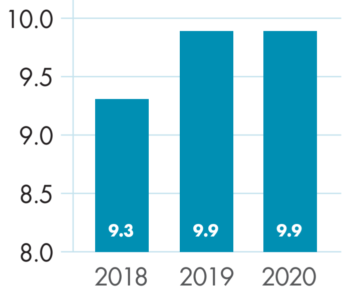
Retail savings balances (£m)



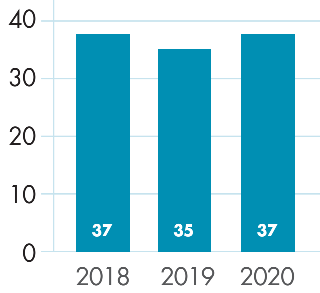
Profit before tax (£m)



Management expenses (£m)



Total regulatory capital (£m)



At 30 November 2020 there were 13 (2019: 7) mortgage accounts where the arrears were the equivalent of 12 months' payments or more. The total amount of principal outstanding in these cases was £1.8m (2019: £1.2m). These increases are largely attributed to the Coronavirus moratorium, which lasted most of the year (March 2020 to January 2021) and prevented litigation and possession action being taken. The total amount of arrears was £250k (2019: £145k). At 30 November 2020, the Society had 2 (2019: 4) properties in possession, of which 1 is under offer.

At 30 November 2020, the Society had 71 (2019: 79) mortgage accounts subject to forbearance, which equates to 1.78% by number of the total mortgage book. These mortgage accounts have a total balance of £5.6m (2019: £6.2m). 38 (2019: 47) of these cases are currently in arrears, with total arrears balances of £107k (2019: £148k). Where the Society considers there is a possibility of loss, a provision is made in accordance with the Society's policies.

Retail savings balances

The Society is pleased to note that retail savings balances have increased by £21m since last year (2019: £31m). The Society opened 3,017 new accounts during the year (4,355 in 2019). To keep our members and staff safe we needed to reduce our operational hours from March and this in turn has impacted our capacity to undertake our popular face to face account opening facility. We have adjusted our approach so the same friendly branch staff can now undertake new account appointments on the telephone and open accounts remotely using post and email channels.

Despite the unsettled year the Society still attracted 1,446 new savings members. Total membership now stands at 68,668. However, net new accounts for the year were negative (-1,182). We had expected drop off from the maturity of a significant volume of Child Trust Fund accounts that the Society holds, the first of which matured from Sept 2020. However, the Society had not anticipated the higher volume of instant access account closures during the spring/summer as members needed to withdraw their funds to see them through the challenging pandemic period.

In 2020 the Society's membership welcomed the introduction of an electronic withdrawal service. This allows members to set up a mandate which enables them to swiftly transfer savings to their bank account, providing a convenient alternative to cheque, cash and CHAPS withdrawals.

We were sorry to advise of the closure of our Felixstowe agency on 25 September 2020 but are pleased to see many regulars using the services of our Ravenswood Branch on the outskirts of Ipswich.

Profit for the financial year

The Society achieved a profit before tax of £1.9m, the same level as the previous year.

Although the profit levels are the same, there are some offsetting movements. The fair value losses on derivatives of £445k referenced last year has partially reversed, negated by the impairment provision overlay of £260k (see note 16).

Achieving a profit is important for the long-term sustainability of the Society because it enables the Society to add to its capital reserves and grow further. However, it is vital that the Society needs to invest in its future and has planned a number of investments in its IT infrastructure. These investments are required prior to the Society's development of online savings.

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.

Directors' Report continued

Management expenses

Management expenses consist of administrative expenses, depreciation and amortisation. It is important that the Board and the Executive exercise close control over costs in the forthcoming years while continuing to invest in the business. The management expenses have risen over the last two years as a result of this investment.

In 2020 the level of management expenses were within the Society's planned level. A number of investment spend costs have been delayed as a result of the COVID-19 pandemic. Costs have been very closely tracked throughout the year. Management attention on costs this year will be required, particularly as the Society continues its digital improvement journey.

Capital

The Society's total regulatory capital is £37 million, an increase of £2 million on the previous year. During the year the Society took the opportunity to repay the remaining £0.5 million of subordinated debt at maturity date. The Society now has no subordinated debt remaining in issue, meaning our capital is predominantly Tier 1 consisting of retained earnings and Tier 2 amounting to the collective provision. The overall amount of capital has increased, and the quality of the Society's capital has improved following repayment of the subordinated debt. The capital position therefore remains strong, giving the Society a sound platform from which to grow further. The Tier 1 Capital Ratio was 14.5% at 30 November 2020, a small decrease from 15.0% at 30 November 2019 – the result of the increase in the mortgage assets.

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 are a requirement of the CRD, together with the disclosure to comply with the requirements of Article 89 of the Capital Requirements Directive IV (CRDIV), are provided on the Society's website www.ibs.co.uk.

Community, economy and environment

The Society has a strong commitment to social responsibility in all its forms. The Society offers matched funding to employees for personal sponsorship of local charities. Due to the COVID-19 pandemic the Society's volunteering programme and financial education could not be conducted in the usual manner. However, the Society has made one-off financial contributions to FIND, a local foodbank and the Ipswich Roundtable Santa Run appeal. The Society also supports the Suffolk Community Foundation. This foundation established the Rebuilding Local Lives Appeal which was established as a fundraising campaign to support the work of charities and community groups affected by COVID-19, raising over £1.7 million and helping over 167,000 vulnerable people in Suffolk. The campaign has now merged with the Surviving Winter appeal to continue to help those affected by the pandemic and support older people in staying warm in the winter months. In October, the Society donated £1,000 to kickstart the newly merged Rebuilding Local Lives Surviving Winter appeal and the Society continues to accept donations from members of the public across our branch network.

As part of our commitment to our local community we've been working to manage and reduce our environmental impact and have carried out full environmental reviews of our sites. The Society was awarded the Silver Suffolk Carbon Charter Award in 2019 as recognition for the measures we have implemented to reduce our carbon emissions. The Society's Environmental Policy and Action Plan includes a commitment to do the following:

- meet or exceed all relevant regulatory requirements and environmental legislation;
- measure and monitor environmental performance; and to
- review environmental management system, policy and objectives annually to ensure continual improvement.

So far some of the actions we have taken are installing solar photovoltaic (PV) panels on the roof of Freehold House, installing low energy LED lighting to some of our premises and installing energy efficient air source heat pump units (to provide heating and/or cooling) at all sites.

Customer satisfaction

Member satisfaction levels and Net Promoter Score remain extremely high at 98% (2019: 99.4%) and 82 (2019: 83) respectively. Net Promoter Score is a score showing how likely members are to recommend us to others.

Directors

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

Alan Harris (Chairman)
Ian Brighton (Executive Director)
Peter C Elcock (resigned 24 March 2020)
Sian Hill (appointed 1 April 2020)
Paul Johnson (Executive Director) (appointed 28 November 2020)
Elaine Lenc
Steve Liddell
Richard Norrington (Executive Director)
Steve Reid
Fiona Ryder
Trevor Slater (Executive Director) (resigned 28 May 2020)

We welcome Sian Hill and Paul Johnson to the Board.

Peter Elcock and Trevor Slater both resigned from the Board during the year. We would like to thank Peter and Trevor for their invaluable service to the Society during their appointment.

Principal risks and uncertainties

During 2020 the Society continued to adopt a generative risk management culture to deliver the following headline risk objectives:

- 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 and expenses due can be met on time;
- to hold sufficient liquidity to ensure members' requests to withdraw funds can be met in all reasonably foreseeable circumstances.

The Society has also undertaken a self-assessment of its operational resilience framework to ensure it can continue to deliver its critical services to members under a range of different "threats". This work will continue in 2021 as we think through our recovery time objectives in the context of member needs.

Climate change risk:
During 2020 the Society further developed its assessment of the risks and threats posed by climate change. Risks have been captured under two headings (physical risk and transitional risks) and work is underway to further develop an assessment of existing controls in place to manage those risks within existing Board-approved appetite. This work will also include an assessment of whether additional controls and strategies should be developed to ensure those risks are adequately and effectively mitigated.

The Society's risk strategy provides clarity on the objectives for risk management across the Society and highlights the linkages between our corporate strategy, capital requirements and risk appetite. This supports the development of a more detailed articulation of the types and materiality of risk that the Society is prepared to take in pursuit of its strategic objectives, which is then outlined in the Society's risk appetite statement. Each risk is monitored monthly through relevant and forward-looking risk appetite limits and triggers (early warning indicators). The risk strategy forms part of the Society's Enterprise Risk Management Framework (ERMF).

The key risks incurred in the Society's activities include retail credit, financial, operational and conduct. Based on the Society's strategic objectives, outlined above are the high-level risk objectives and level 1 risk categories. Each level 1 risk is owned by a nominated member of the Society's Senior Management Team. No risk is presently deemed outside Board-approved appetite and management actions are in place to ensure the Society operates adequate and effective controls within Board-approved limits over the longer term.

Risk appetite objective	Level 1 risk
Financial Our objective is to manage profit volatility within defined parameters with capital and liquidity at levels that allow the Society to operate effectively in both normal and stressed conditions.	· Capital · Liquidity & Funding · Interest Rate Risk in the Banking Book · Financial Reporting · Wholesale Credit Risk
Retail credit Our objective is to manage and control credit risk within defined limits and exposures and to underwrite more complex mortgages for our customers that fit with our underwriting expertise.	· Model Risk and End-User Developed Applications · Lending Quality · Concentration Risk · Problem Debt Management · Credit Monitoring
Operational Our objective is to develop and maintain cost-effective and robust systems, infrastructure, and processes to deliver the corporate strategy. We will have in place the right number of skilled and motivated people. We will develop and retain our best talent.	· People · Information Security & Records Management · Systems (including Change Management) Information · 3rd Party Suppliers (including Brokers) Management · Climate change
Conduct In striving to deliver good customer outcomes consistent with our vision, our foundations are the delivery of compliant products, processes and systems in how we treat or interact with our customers. We will seek full compliance with appropriate regulations.	· Fraud · Product Design · Mortgage Sales · Savings Sales · Post Sales Savings · Post Sales Mortgages · Governance & Culture · Legal Risk · Financial Crime · Compliance Oversight

Directors' Report continued

The Society has an Executive Risk Committee (ERC) that monitors and reports monthly on the Society's risk profile to the Board Risk and Compliance Committee. The Retail Credit Risk Committee, Assets and Liabilities Committee, and the Operational and Conduct Risk Committees report to the ERC.

The risk profile of the Society has remained stable during 2020. Material risks remain around protecting the Society and its members from financial crime and cyber crime. Added to this in 2020 have been the risks resulting from Brexit alongside operational risks driven by Government's response to the COVID-19 pandemic. During this period we have operated fully within our operational resilience tolerance levels whilst meeting Government requirements on protecting our staff and members.

We continue to carefully manage the Society's liquidity risk, assess and set aside sufficient capital to protect members from all reasonable, foreseeable circumstances and ensure we manage our retail credit risk within pre-agreed risk appetite levels. We continue to ensure we meet all regulatory requirements and conduct business to ensure good customer outcomes. We have focused considerable time on training our staff to identify and report cases where our members may be vulnerable. We are also focused on ensuring we have the ability to deliver our core services across a range of operational threats. We have taken steps to assess our climate impact whilst assessing the risks to the Society from climate change.

Capital risk:
The Board complies with the Capital Requirements Directive IV (CRD IV) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). To assist the Board in determining the level of capital required, stress testing and scenario analysis is performed on key business risks to assess whether the Society could survive a severe economic downturn and other severe business shocks. Through this process the Board ensures that the Society holds a level of capital sufficient to satisfy regulatory requirements and meet our own internal capital assessment. The Pillar 3 disclosures required under the CRD IV are available from the Society's Secretary, or on our website.

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 and complete/undertake new mortgage drawdowns. 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). However, we hold the majority of our on-call liquidity investments with the Bank of England.

At 30 November 2020 we had a total of £119.6m held as liquid assets; £89.5m was available on-call with the Bank of England with the remainder in cash, CDs and Floating Rate Notes.

Interest rate risk:
Interest rate risk arises from either a mismatch between the interest rate characteristics or the maturity profiles of assets and liabilities. The Board-approved Treasury 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 interest rate swaps to manage interest rate risk within our Balance Sheet. Further details can be found in note 30 of the accounts.

Wholesale credit risk:
Wholesale credit risk is the risk of default on assets held to mitigate liquidity risk (on-call accounts, CDs and FRNs). We manage the risk of investing these liquid assets by having strict criteria for accepting counterparties to invest in and absolute limits for these investments with each counterparty. These criteria and limits are stated in our Board-approved 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.

Retail credit risk:
This risk materialises when a loss is incurred through non-repayment of mortgage lending and is mitigated through our Board-approved Lending Policy, which shows our risk appetite 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. In 2020 we have assisted 574 customers through the provision of a COVID-19-related mortgage payment deferral.

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

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

Operational risk events and near misses are captured and root cause analysis is undertaken to identify and mitigate further risk events. 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.

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 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 design products with target markets in mind.

Financial crime, compliance, and legal risk:
There is an overarching "regulatory 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.

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 or service, unless staged payments are agreed in advance. We operate within agreed payment terms with our suppliers. At 30 November 2020 we had an average of 14 days' purchases outstanding in trade creditors (2019: 12 days).

Going concern

The Directors are required to consider whether the Society will continue as a going concern for a period of 12 months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period.

The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. A range of sensitivities has also been applied to these forecasts, including stress scenarios taking account of the potential impacts of COVID-19.

The going concern assessment, which focused on the Society's capital and liquidity position and operational resilience, included the following actions:

- The Society's capital position was assessed against the ICAAP stress scenarios, which included the Society considering two scenarios. The first stress scenario included a "rates up" scenario which would assume a rapid increase in bank base rate, and a house price fall together with an increase in the unemployment rate.

  The second of these scenarios assumed a "rates down" scenario which included negative bank base rates and an increase in unemployment rates.

  The assessment included reverse stress testing scenarios to consider which combinations of house price inflation and unemployment variables would consume regulatory capital in full and breach the Society's regulatory capital requirements. In addition, failure of treasury counterparties and MIG providers, increase in pension deficit, and falling bank base rates stresses have also been included. The Directors concluded that the likelihood of those scenarios occurring within the next 12 months was remote.

- The Society's liquidity position was assessed against the ILAAP stress scenarios and reviewed for suitability in the context of COVID-19.

- Operational resilience was assessed, including the ability to achieve social distancing in the Society's principal office and branches, ability to continue operating in the event of a mortgage administration platform failure and to continue to support significant levels of home working.

After considering all of this information, together with available market information and the Directors' knowledge and experience of the Society and markets in which it operates, and after making the necessary enquiries, the Directors are satisfied that the Society has adequate resources to continue in business for at least the 12-month period from the signing of the accounts.

Accordingly, and after consideration of the impact of COVID-19, it is appropriate for the accounts to 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 BDO LLP as auditor is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors.

Alan Harris
Chairman
4 February 2021

Corporate Governance Report

The UK Corporate Governance Code (the Code) was revised in 2018. This is the first financial year that this version of the Code is due to be considered by the Society. The Code sets out a number of principles that emphasise the value of good corporate governance to long-term sustainable success. It is aimed at listed companies and therefore the Society is not specifically required to comply. However, the Society is committed to maintaining best practice in corporate governance. This report explains how the Society applies the principles in the Code insofar as its provisions are relevant.

Board leadership and purpose

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

The Board of Directors' focus is to ensure the long-term sustainability of the Society for the good of our members. We do this by setting the strategy to meet the needs of our members, remain competitive and deliver our services appropriately, with a profit, to help build our capital over the long term. The Board formulates the strategy, reviews business performance, oversees the identification and management of risks and 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.

In 2020 the Board of Directors met 10 times with one and a half additional days dedicated to strategy. In light of COVID-19 restrictions during the year, these meetings have taken place via video conference since March 2020. Board meetings have a formal schedule with papers circulated in a timely manner to ensure Board members can perform their duties effectively. Minutes record details of Board, Board Committee and Management meetings.

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

The Board Chair is responsible for leading the Board's development of the Society's culture and the Chief Executive is responsible for overseeing the adoption of the culture. The Board is responsible for establishing the Society's purpose and values and creating a culture which delivers a sustainable long-term strategy.

As part of approving the corporate plan on an annual basis the Board reviews the Society's mission, vision and values to determine that they remain appropriate for the Society. On a quarterly basis the Board reviews a cultural dashboard which provides key performance indicators to monitor the Society's culture. Culture is also independently assessed by Internal Audit as part of its annual audit.

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

The Society operates an Enterprise Risk Management Framework (ERMF). There are four committees that report directly into the Board: Board Risk and Compliance Committee and the Audit Committee which meet at least quarterly; the Remuneration Committee and Chairman's and Nominations Committee, both of which meet at least twice a year. In addition, the Society has an Executive Risk Committee that is part of the Society's second line of defence and reports into the Board Risk and Compliance Committee. There are three first line management committees; Assets and Liabilities Committee, Retail Credit Risk Committee and Operational and Conduct Risk Committee, all of which meet monthly. 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.

Audit Committee

The purpose of the Committee is to oversee the Society's financial reporting arrangements, the effectiveness of its internal controls, and the Internal and External Audit processes. The Committee makes recommendations to the Board and reports on its activities. Minutes of the meetings are circulated to the Board of Directors, along with a verbal report from the Chairman of the Audit Committee highlighting key issues for Board review. The key responsibilities of the Committee are set out below, together with examples of how it discharges its duties.

At least annually the Committee meets with the External Auditors without the Executive Directors present. The Board is satisfied that the members of the Committee have specialist expertise including current and relevant financial and risk management expertise.

The key responsibilities of the Audit Committee and details of how they have discharged these responsibilities this year are set out below.

- Financial Reporting, including:
  - Monitoring the integrity of the Society's financial statements and reviewing critical accounting policies, judgements and estimates.
  - Reviewing the appropriateness of the going concern basis for preparing the accounts.
  - Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced, understandable, and include the information necessary for members to assess the Society's position and performance, business model and strategy.

The Committee considered the following significant judgements and estimates. It also reviewed reports from External Auditors and Management. More detail on the principal judgements and accounting estimates is set out in Note 1 of these Accounts.

Effective Interest Rate ("EIR"):
The application of the EIR method of accounting requires judgement and the accounting entries involve estimates based on key assumptions, particularly around customer behaviour at the end of the fixed term of their products. The Statement of Financial Position as at 30 November 2020 includes the recognition of a net EIR adjustment of £258,000.

The Committee spent time understanding and challenging the judgements made and the methodology applied by Management in determining the EIR. The Committee agreed that Management's judgements were appropriate in respect of the year ended 30 November 2020.

Allowance for impairment losses on loans and receivables:
Determining the appropriateness of an allowance for impairment losses involves judgement and requires Management to make a number of assumptions around default rates, likely asset recoveries and other factors. The loan loss impairment provisions recorded by the Society as at 30 November 2020 were £555,000.

The Committee considered and challenged the provisioning methodology applied by Management, including the results of statistical loan loss models to support the impairment provisions, including the assumptions potentially impacted by the COVID-19 pandemic. The Committee was satisfied that the impairment provisions were appropriate.

Hedge accounting:
The Society has implemented hedge accounting in line with FRS 102. The designated macro hedges require matching, hedge effectiveness documentation and testing, and fair valuing of both the hedged instrument and the underlying hedged item. During 2020 the Society commenced transitioning from LIBOR denominated swaps to SONIA ones. This process is likely to be concluded during 2021.

The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with FRS 102.

Retirement benefit obligations:
The Society makes significant judgements in calculating the present value of the retirement benefit obligations. The major assumptions are in respect of mortality, price inflation, discount rates, pension increases and earnings growth. The pension scheme liability recorded at 30 November 2020 was £157,000.

The Committee considered the assumptions used by reference to advice received from our Actuaries and independent challenge from our External Auditors. The Committee is satisfied that the assumptions used are reasonable.

Accounting Policies:
The Committee examined the Society's accounting policies to ensure they are appropriate and applied consistently. They also confirmed that the policies are in line with applicable Accounting Standards.

Going Concern:
The Committee considered a paper from Management covering the Society's current and projected liquidity and capital position, together with potential risks that could impact the business, as well as consideration of potential stress scenarios. This covered the period to 30 November 2024 in detail with regard to long term projections contained within the approved Corporate Plan.

Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

2020 Annual Report:
The Committee considered whether the 2020 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Society's performance, business model and strategy. The Committee was satisfied that the 2020 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year.

Consequently in February 2021, the Committee recommended the approval of the final 2020 Annual Report to the Board.

External audit:

In respect of external audit, the committee is responsible for:

- Reviewing the continued objectivity and independence of External Audit, including the level and appropriateness of non-audit services.
- Considering the appointment, removal, performance and remuneration of the External Audit firm.
- Considering the planning, scope and findings of the annual External Audit, and the receipt of and responses to the Auditor's management letter.

The Audit Committee is also responsible for assessing the effectiveness of the annual audit process, for monitoring the independence and objectivity of the External Auditor and for making recommendations to the Board in relation to the appointment of the External Auditor. Both the Board and the External Auditor have safeguards in place to protect the independence and objectivity of the External Auditor.

In the previous financial year, the Committee instigated a re-tendering of the external audit service. As a result of the tender process, BDO LLP were recommended for appointment. At the Society's AGM in March 2020 the Members passed a resolution to appoint BDO LLP as external auditors.

Corporate Governance Report continued

During the year, the Committee reviewed the audit plan presented by BDO, and in January 2021 received the auditors' review memorandum prepared at the end of the 2020 audit.

The Society has a policy for the use of External Auditors for non-audit work in line with regulatory requirements. The Society would not consider the appointment of the External Auditor for the provision of other services that might impair independence.

- Internal Controls and Risk Management, including:
  - Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by Internal and External Audit.
  - Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.

Certain risk management controls are reported through the Board Risk and Compliance Committee rather than the Audit Committee.

The Committee was satisfied that internal controls over year-end financial reporting were appropriately designed and operating effectively.

The Committee reviewed the Board-approved whistleblowing procedures and is satisfied that arrangements are in place to enable individual employees to raise concerns about possible improprieties on a confidential basis.

- Internal Audit, including:
  - Considering and approving the strategic and annual plans of work.
  - Considering finalised internal audit reports and Management's responses to recommendations.
  - Considering the appointment, removal, performance and remuneration of the internal audit firm.
  - Reviewing the annual conclusion on the Governance, Risk and Control Framework.

Internal Audit is outsourced to Deloitte LLP. During 2019/20 the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively. During 2020, Deloitte rotated the partner responsible for the outsourced internal audit services to ensure the continued independence of the function.

In the year ended 30 November 2020, Internal Audit carried out 9 audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including management responses. The Audit Committee considers the adequacy of management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

Board Committees

Chairman's and Nominations Committee

The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board and Senior Management. This includes Board and Senior Management succession planning, the appointment of new Directors, election and re-election of Directors and the Chief Executive's annual appraisal. The Committee is responsible for ensuring compliance with the Society's Board diversity policy which seeks to ensure that the Board is diverse in terms of gender, ethnicity and experience.

Remuneration Committee

The Committee's main role is to approve the remuneration and incentive schemes for the Society's Executive and Senior Management. The Chairman of the Remuneration Committee was appointed in April 2020. The Code recommends that any Chair of a remuneration committee has been a member of the Committee for 12 months prior to taking the position of Chair. Elaine Lenc was not previously a member of the Committee. However, the Board is comfortable that Elaine has sufficient experience and expertise to hold the position and has received regulatory approval. 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 page 24.

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. The Committee assists the Board in fulfilling its oversight responsibilities by receiving regular reports from the Executive Risk Committee which enable it to assess the risks involved in the Society's business (including risks that could threaten its business model, future performance, solvency or liquidity) and to consider the principal risks identified by Management and 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 appetite and 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

Executive Risk Committee

The purpose of the Executive Risk Committee is to monitor and oversee the Society's risk profile in accordance with the ERMF and Board risk appetite. The Committee is part of the Society's second line of defence. The Committee supports the Board Risk & Compliance

Committee by providing oversight of the adequacy of the Society's application and embedding of ERMF tools and processes.
The Executive Risk Committee reports to the Board Risk & Compliance Committee.

Assets and Liabilities Committee

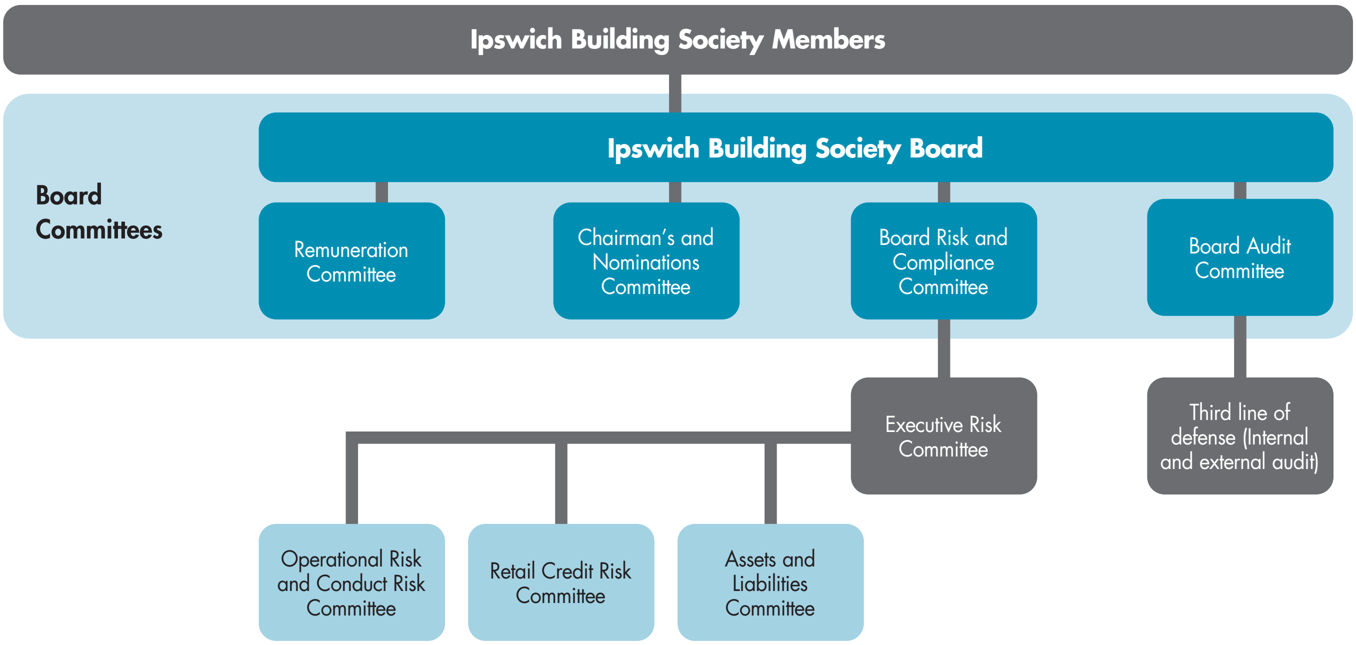
This Committee manages wholesale credit risk (the risk of default on assets), capital risk, liquidity risk (the risk that the Society will not be able to meet its financial obligations), financial reporting risk and interest rate risk (which arises from a mismatch between interest rate characteristics). The Committee is responsible for ensuring the Society operates within agreed parameters set out in the Board's Liquidity and Financial Risk Management policies. On a monthly basis the Committee reviews the relevant risk appetite profiles and metrics to ensure that the Society is operating within the Board-approved risk appetite. It refers any relevant matters or any recommendations for amendments to risk metrics to the Executive Risk Committee.

Operational and Conduct Risk Committee

The Committee manages operational and conduct risk. Operational risk is the risk of loss through inadequate or failed internal processes or systems, including human error or external events. Conduct Risk is the risk that the Society's behaviour results in inappropriate or poor outcomes for customers. On a monthly basis the Committee reviews the relevant risk appetite profiles and metrics to ensure that the Society is operating within the Board approved risk appetite. It refers any relevant matters or recommendations for amendments to risk metrics to the Executive Risk Committee.

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 and that the Society is operating within the Board-approved risk appetite. 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 reviews the Society's Lending Policy Statement, ensuring this aligns with our risk appetite, and recommends changes to the Policy to the Board for approval. It refers any relevant matters or any recommendations for amendments to risk metrics to the Executive Risk Committee.



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

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 our culture. The Society is committed to regular dialogue with members through frequent newsletters, social media, and in normal circumstances, events such as the AGM. Members visiting branches are also invited to leave feedback via an online or paper survey. The purpose of this dialogue with members is to understand, and better serve, their needs.

During the COVID-19 pandemic many member event activities have had to be postponed, but we anticipate resuming them once Government guidelines permit.

Corporate Governance Report continued

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

Employee policies and practices are regularly reviewed to ensure they remain consistent with the Society's values and the relevant legal framework. Workforce policies and practices are available for all employees to access via a central repository and the HR team are available to provide support.

The Society utilises an anonymous online survey called Engagement Multiplier that measures employee engagement. These surveys are conducted twice a year and the results are presented to the Board. A Management action plan is prepared as a result of the survey responses to progress any areas for improvement. Engagement Multiplier also provides employees with the ability to raise any issue or question anonymously at any time.

During the year many of our staff worked from home, although we continued to keep our branches open. Our Management Team successfully introduced new ways of engaging with their teams and this resulted in our engagement scores remaining high.

Employee wellbeing has been a key focus over the last 12 months and the Society has provided support to employees in several ways, including access to an Employee Assistance Programme which offers confidential counselling and advice on a wide range of work and personal issues. The Society has also run a number of sessions facilitated by Suffolk Mind focusing on differing areas of emotional wellbeing. These resources have been invaluable in helping employees through the impact of COVID-19 on their home and working life.

Division of responsibilities

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

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

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
- Liaising with regulators as appropriate

Alan Harris is the Society's Chairman.

Role of the Deputy Chairman

Steve Reid is the Society's Deputy Chairman. 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

Fiona Ryder is the Society's Senior Independent Director. The Senior Independent Director is available for members to refer issues to that they have not been able to resolve via the Chairman, Chief Executive or 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. Fiona Ryder 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

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

Richard Norrington is the Society's CEO.

Role of the Executive Team

The Executive Team works with the Chief Executive and Board to ensure the effective implementation of strategies and policies within agreed budgets and time frames. It holds 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. It is 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.

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

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. The Society has a succession plan in place for all Non-Executive Director positions. On 1 April 2020 Sian Hill was appointed to the Board as Non-Executive Director.

Directors are informed of the time commitment in their letter of appointment. The Chairman's and Nominations Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment, considering information provided by referees, and once appointed there is a process in place for approving new requests to take up roles elsewhere.

The Society has a process to evaluate the performance and effectiveness of individual Non-Executive Directors. This appraisal process includes a 360 questionnaire and feedback from all the Non-Executive Directors. The Chairman is evaluated by the Deputy Chairman with assistance from the Senior Independent Director. The Chief Executive evaluates the Finance Director and Operations Director as a member of the Executive Team. The performance of the Chief Executive is assessed by the Chairman and the Deputy Chairman and discussed at the Chairman's and Nominations Committee.

Below is a table setting out Director attendance at the Society's meetings for the financial year.

Attendance at Board and Board Committee meetings

Name/Title	Board Meetings	Audit Committee	Remuneration Committee	Chairman's and Nominations Committee	Board Risk and Compliance Committee
Alan Harris Chairman	10(10)*	5(5)Δ	3(3)	2(2)*	–
Peter Elcock Non-Executive Director – Remuneration Committee Chairman (resigned 24th March 2020)	4(5)	0(1)	1(1)	1(1)	1(1)
Sian Hill Non-Executive Director (appointed 1 April 2020)	5(5)	3(3)	–	–	4(4)
Steve Reid Non-Executive Director – Board Risk and Compliance Committee Chairman	10(10)	–	3(3)	2(2)	5(5)*
Steve Liddell Non-Executive Director	9(10)	5(5)*	3(3)	2(2)	4(5)
Richard Norrington Chief Executive	9(10)	–	3(3)	2(2)	4(5)
Fiona Ryder Non-Executive Director	10(10)	4(4)	–	–	5(5)
Elaine Lenc Non-Executive Director Remuneration Committee Chairman (appointed 9 June 2020)	10(10)	–	2(2)*	–	5(5)
Trevor Slater Finance Director (resigned 28 May 2020)	5(5)	–	–	–	2(2)
Ian Brighton Operations Director	9(10)	–	–	–	5(5)
Paul Johnson Finance Director (appointed 26 November 2020)	4(4)	–	–	–	3(3)

– not a member of the Committee Δ The Chairman attended these meetings as an observer only.

* Denotes Chairman of the Committee.

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

Corporate Governance Report continued

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

The Chair ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The Society continuously improves management information to assist its Committees in discharging their terms of reference, and each Committee annually conducts an internal effectiveness review. Internal Audit reviews the adequacy of the information provided to the Board.

The Society provides a formal induction for new Directors. This includes the nature of building societies, Directors' responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and the local market, an overview of the regulatory requirements and details of significant current issues for the industry. The Chair and Society Secretary review and agree the CPD needs for the Board on a regular basis and ensure that Non-Executive Directors are provided with internal briefings, on-line training modules and attend industry seminars and conferences in order to continually update their skills and knowledge. In addition, prior to their appointment, all new Senior Managers go through a comprehensive handover process to ensure they are fully aware of the specific responsibilities relating to their individual role.

The Society Secretary provides support on corporate governance matters and individual members of the Board have access to independent advice if required.

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

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. The Chairman's and Nominations Committee lead the recruitment process, although the Board as a whole makes the final decision. During 2020 Sian Hill joined the Board as a Non-Executive Director of the Society and Paul Johnson joined as Finance Director.

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 notified to the regulators. All Directors undergo basic DBS checks prior to appointment. Senior Managers (including Non-Executive Directors) with responsibilities for specific areas of business allocated to them are required to be pre-approved by the Regulator.

The Society is committed to diversity and currently has a 33% (2019: 22%) female representation on the whole Board. This is therefore above the recommendations of the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation and also the Society's aspirational target of 30% set out as part of its commitment to the Women in Finance Charter. The Board will continue to be cognisant of this when recruiting to the Board.

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

As at 30 November 2020 the Board consisted of six 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 member 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 2020, subject to by election at the AGM. One Executive Director, Paul Johnson, was appointed to the Board as Finance Director, following the resignation of Trevor Slater in May 2020.

Non-Executive Directors will not usually serve more than nine years. The Code now recommends that a Chair should also not remain in post beyond nine years from the date of their first appointment to the Board. It does however recognise that to facilitate effective succession planning, this period can be extended for a limited time, particularly in those cases where the Chair was an existing Non-Executive Director on appointment. The current Chair, Alan Harris, has been a Non-Executive Director for more than nine years, although he has only held the position of Chair since 2017. In view of the length of tenure of the current Chair, the Directors have resolved that Mr Harris will stand for annual re-election at the Society's AGM. The Code recommends annual re-election for all Directors. However 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, bring wide and varied commercial experience to Board deliberations and continue to represent the interests of the Society's members. As a result the Society does not currently put forward all Directors for annual re-election.

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 Sian Hill and Paul Johnson will stand for election in March 2021. Each Non-Executive Director is appointed to the Board for a term of up to three years, subject to satisfactory performance. At the AGM Steve Liddell and Alan Harris will retire from the Board and stand for re-election.

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

Each Non-Executive Director has an annual performance appraisal carried out by the Chairman. The Chairman's performance appraisal is facilitated through the Deputy Chairman and Senior Independent Director, taking into account the views of all the Directors. The Non-Executive Directors and Chairman give feedback to the Board on general issues of performance. The evaluation of Board effectiveness is usually externally facilitated at least every three years. The last external review took place in 2018 and noted that the Society was considered to be within the top quartile for board effectiveness. The Society used BP&E Global to conduct the effectiveness review.

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

The Audit Committee comprises three independent Non-Executive Directors. The Executive Directors, the General Manager Risk and Compliance, Chief Commercial Officer and Society Secretary, as well as representatives from the internal and external auditors, attend by invitation. The Chair is not a member but may attend by invitation. It meets four times a year and once a year the external and internal auditors meet the Committee without the presence of the Executive Directors.

Further details about the responsibilities of the Audit Committee and how it discharges those responsibilities are set out under section C above.

N. *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 9 and Directors' Responsibilities on page 26.

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

The Directors have a responsibility, both under the Building Societies Act 1986 and the Financial Services and Markets Act 2000, 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 9. Each Board and Management Committee is responsible for the risks and controls within its remit. The Board Risk and Compliance Committee assesses the adequacy of this process on behalf of the Board. The Internal Audit provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee.

The Board has reviewed the effectiveness of the ERMF and concluded that the Society has a strong risk management and compliance culture, and that the current framework is effective and appropriate for the size and complexity of the business.

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.

The Directors' Remuneration Report on page 24 explains how the Society complies with the Code Principles relating to remuneration.

Alan Harris
Chairman
4 February 2021

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 regards the principles of the UK Corporate Governance Code 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 and the PRA's Remuneration Policy. Directors are designated as "Code Staff" under the Regulator's Remuneration Code due to their material impact on the Society's risk profile. The remuneration of individual Directors is detailed in note 6 of the accounts.

The Code notes the following in relation to remuneration:

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

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

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

The Society has a Remuneration Committee, membership of which solely comprises Non-Executive Directors. 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, the embedding of the Society's risk management framework and to recognise performance factors that contributed to the Society's overall business and member objectives.

Non-Executive Directors:

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations (building societies of a similar size).

Remuneration comprises a basic fee with a supplementary payment for holding the position of Chairman of a Committee, Deputy Chairman or 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 employment 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 as set out below. The Society has no share option scheme and none of the Executive Directors has any beneficial interest in, or any rights to subscribe to, any instruments, or shares in or debentures of, any connected undertaking of the Society.

Basic salary:

Salaries are reviewed by benchmarking against jobs carrying similar responsibilities, from external salary benchmarking data from the building society sector and the financial services sector as a whole, as well as other UK and regional salary data. This encompasses consideration as to the responsibility and complexity of the role, market conditions and demands, and the Society's very high-quality standards.

The Society's approach is not to compromise on quality standards, and to seek to secure the best and most appropriate people for any particular role at a rate of remuneration consistent with the Society's financial, business and member objectives.

Three-year performance-related pay scheme:

A three-year performance-related pay (PRP) scheme operated during the year for Executive Directors, which 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 cost management, capital and member and broker satisfaction metrics and which are subject firstly to meeting defined financial performance and risk management criteria. At least one third of this payment is deferred for up to a 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 prior to recommendation for Board approval. Whilst the Society achieved all measures set out within the performance-related pay scheme set for this year, the Remuneration Committee took the decision that the variable award should be reduced from 20% to 15%. This acknowledges the commitment of the Executive Directors but also recognises the economic uncertainty affecting the Society and its members.

Pensions:

The Society makes a contribution of between 17.5% and 20% of salary for Executive Directors' pension arrangements. For Richard Norrington and Paul Johnson this is in the form of a cash equivalent payment.

Benefits:

Executive Directors receive other taxable benefits including a car allowance, travel and accommodation allowance when on Society business 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:

The Remuneration Committee consists of four Non-Executive Directors under the Chairmanship of Elaine Lenc. The Chief Executive attends by invitation only but takes no part in the discussion of his own salary. 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. It also regularly reviews regulatory requirements as they apply to remuneration to ensure that the regulators' guidance is followed and applied in practice. At the beginning of 2020 the Society commissioned an external remuneration package benchmarking exercise to be undertaken by Mercer. The results of this benchmarking are being used to assess the appropriateness of the remuneration package awarded to Executive Directors.

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. The Board, with the exception of the Chairman, agrees the Chairman's fee.

Elaine Lenc
Chairman of the Remuneration Committee
4 February 2021

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

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

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

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

Independent auditor's report to the members of Ipswich Building Society

Opinion

We have audited the financial statements of Ipswich Building Society (the 'Society') for the year ended 30 November 2020 which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statements of Changes in Members' Interests, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 30 November 2020 and of the Society's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Independent auditor's report to the members of Ipswich Building Society continued

Key Audit Matter	How we addressed the key audit matter in our audit
Revenue recognition ("EIR") As disclosed in Note 1.2 and explained in Note 1.14 (critical estimates and judgements) the Society's mortgage interest income is recognised using an effective interest rate ("EIR") method. This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is required to determine the expected cash flows for the Society's loans and advances within these models, in particular the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition is therefore considered to be a significant risk area.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the accounting framework. This included assessment of the types of fees being spread within the effective interest rate models versus the requirements of the applicable financial reporting standard. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing samples back to the loan management system or source documents. We assessed whether the spreadsheet models calculate the EIR adjustments as designed, by testing the integrity of the model calculations. We challenged management's assessment relating to the loan behavioural life run-off curves which was based on the Society's historical data and also considering the trends in more recent data of customer behaviour. We reviewed the relevant interest income and effective interest rate disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence. Key observations: We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

Key Audit Matter	How we addressed the key audit matter in our audit
Impairment losses on loans and advances (excluding life time mortgages) As disclosed in Note 16 and explained in Note 1.14 (critical estimates and judgements), the Society holds £555K of impairment provisions at year-end (2019: £318K). The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of IAS 39, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans. Estimating an appropriate loan loss provision requires significant management judgement in determining the value and timing of future cash flows and has therefore been identified as a key audit matter.	We obtained an understanding of the design and implementation of key controls in the impairment provisioning process and tested the operating effectiveness of the loan management system control that identifies loans in arrears. We reviewed management's assessment of the specific and collective provision methodology compared to the requirements of the accounting standard. We challenged the appropriateness of the key assumptions within the model such as impairment triggers, forced sales discount and probability of default through a combination of benchmarking, sensitivity analysis and agreeing significant inputs to external data sources where applicable. We tested the key model inputs by agreeing them back on a sample basis to underlying source data. We reconciled the loan balances in the models to the loan management system to test whether the relevant loan populations were being considered for impairment. We assessed whether the spreadsheet model performs the impairment calculations as designed, by testing the integrity of the model calculations. We assessed the appropriateness of management's Brexit and COVID–19 overlays through assessing the rationale for the increased impairment charge, compared to our industry knowledge and through benchmarking. We also undertook sensitivity analysis over the key assumptions to determine whether the overall adjustment is reasonable. We reviewed the impairment and sensitivity analysis disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence. Key observations: We have not identified any indicators that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made.

Independent auditor's report to the members of Ipswich Building Society continued

Our application of materiality

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

Materiality	£366,000
Performance materiality	£238,000
Reporting threshold	£10,000

We consider materiality to be the magnitude by which misstatements, individually or taken together, could reasonably be expected to influence the economic decisions of the users of the financial statements. We determined the materiality for the financial statements to be £366,000, which was set at 1% of Tier 1 Capital. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

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

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

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

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

We agreed with the Audit Committee that we would report all individual audit differences in excess of £10,000 to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

Capability of the audit to detect irregularities, including fraud

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Building Societies Act 1986

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

- The annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

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

In our opinion the information given in note 8 for the financial year ended 30 November 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of directors on 9 July 2020 to audit the financial statements for the year ended 30 November 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 30 November 2020.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

BDOLLP

Daniel Taylor
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
4 February 2021

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

Statement of Comprehensive Income

for the Year ended 30 November 2020

	Notes	2020 £000	2019 £000
Interest receivable and similar income	2	17,239	19,125
Interest payable and similar charges	3	(5,228)	(7,127)
Net interest income		12,011	11,998
Defined benefit pension (expense)/income	9	(1)	121
Fees and commissions receivable		200	340
Fees and commissions payable		(140)	(509)
Gains/(losses) on financial instruments at fair value	4	10	(445)
Net profit on financial operations	8	12,080	11,505
Other operating income		12	31
Total income		12,092	11,536
Administrative expenses	5	(9,534)	(9,484)
Depreciation and amortisation	17, 18	(362)	(368)
Other operating charges		(37)	(43)
Operating profit before impairment allowance and provisions		2,159	1,641
Impairment (losses)/gains on loans and advances to customers	16	(244)	242
Operating profit and profit before tax		1,915	1,883
Tax on profit on ordinary activities	10	(327)	(435)
Profit for the financial year		1,588	1,448
Other Comprehensive Income			
Actuarial loss recognised in the pension scheme	9	(183)	(131)
- Movement in related deferred tax		35	23
Movement in fair value of debt securities	13	29	(22)
- Movement in related deferred tax		(5)	4
Revaluation gain on freehold property	17	–	–
- Movement in related deferred tax		(20)	–
Total comprehensive income for the year	27	1,444	1,322

The Notes to these Accounts are contained on pages 36 to 67.

Statement of Financial Position

as at 30 November 2020

	Notes	2020 £000	2019 £000
Assets			
Liquid assets			
Cash and cash equivalents	11	89,948	109,901
Loans and advances to credit institutions	12	2,322	5,377
Debt securities	13	27,291	27,114
Total liquid assets		119,561	142,392
Derivative financial instruments	14	40	35
Loans and advances to customers			
Loans fully secured on residential property	15	567,637	522,317
Loans fully secured on land	15	717	745
Total loans and advances to customers	15	568,354	523,062
Tangible fixed assets	17	4,301	4,408
Intangible fixed assets	18	694	877
Other assets	19	3,530	1,336
Deferred tax	10	50	148
Prepayments and accrued income	20	216	229
Total assets		696,746	672,487
Liabilities			
Shares	21	582,019	556,677
Amounts owed to credit institutions	22	30,005	30,038
Amounts owed to other customers	23	42,285	46,432
Derivative financial instruments	14	3,011	1,063
Other liabilities	24	399	296
Accruals and deferred income	25	1,067	928
Deferred tax	10	639	689
Net pension liability	9	157	90
Subordinated liabilities	26	–	554
		659,582	636,767
Reserves			
General reserve	27	36,112	34,647
Revaluation reserve	27	1,027	1,072
Available-for-sale reserve	27	25	1
Total liabilities		696,746	672,487

The accounting policies and notes on pages 36 to 67 form part of these Accounts.

Approved by the Board of Directors on 4 February 2021.

Alan Harris, Chairman

Richard Norrington, Chief Executive

Paul Johnson, Finance Director

Statement of Changes in Members' Interests

for the Year ended 30 November 2020

	General reserves 2019 £000	Available for sale reserve 2019 £000	Revaluation reserve 2019 £000	Total reserves 2019 £000
Balance at 1 December 2018	33,282	19	1,097	34,398
Total comprehensive income for the year				
Profit for the year	1,448	–	–	1,448
Other comprehensive income	(108)	(18)	–	(126)
Transfer between reserves	25	–	(25)	–
	1,365	(18)	(25)	1,322
Balance at 30 November 2019	34,647	1	1,072	35,720

	General reserves 2020 £000	Available for sale reserve 2020 £000	Revaluation reserve 2020 £000	Total reserves 2020 £000
Balance at 1 December 2019	34,647	1	1,072	35,720
Total comprehensive income for the year				
Profit for the year	1,588	–	–	1,588
Movement in related deferred tax	–	–	(20)	(20)
Other comprehensive income	(148)	24	–	(124)
Transfer between reserves	25	–	(25)	–
	1,465	24	(45)	1,444
Balance at 30 November 2020	36,112	25	1,027	37,164

The Notes to these Accounts are contained on pages 36 to 67.

Statement of Cash Flows

for the Year ended 30 November 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Profit before tax		1,915	1,883
Adjustments for:			
Depreciation and amortisation of fixed assets	17, 18	362	368
Profit on disposal of tangible fixed assets	17	–	(4)
Impairment losses/(gains) on loans and advances to customers	16	244	(269)
		2,521	1,978
Changes in operating assets and liabilities			
Changes in fair values of financial instruments at fair value through the Statement of Comprehensive Income	4	(10)	445
Decrease/(increase) in prepayments and accrued income	20	80	(114)
Increase in accruals and deferred income	25	139	429
Increase in other assets	19	(2,260)	(811)
Decrease/(Increase) in other liabilities	24	103	(11)
Net pension scheme payment	9	(118)	(350)
(Increase)/decrease in loans and advances to customers	15	(43,574)	14,385
Taxation paid	10	(200)	(400)
Movement in Shares	21	25,341	35,873
Amounts owed to credit institutions and other customers	22, 23	(4,180)	(19,765)
Net cash (used)/generated by operating activities		(24,679)	29,681
Cash flow from financing activities			
Movement in:			
Subordinated debt	26	(550)	(4,000)
Net cash used in financing activities		(550)	(4,000)
Cash flows from investing activities			
Purchase of debt securities	13	(27,219)	(17,001)
Proceeds on maturity of debt securities	13	27,002	7,008
Purchase of tangible fixed assets	17	(40)	(136)
Proceeds on disposal of tangible fixed assets	17	–	10
Purchase of intangible fixed assets	18	(32)	–
Net cash used by investing activities		(289)	(10,119)
Net (decrease)/increase in cash and cash equivalents		(22,997)	17,540
Cash and cash equivalents			
At 1 December	11, 12	115,267	97,727
Movement in the year		(22,997)	17,540
At 30 November	11, 12	92,270	115,267

The Notes to these Accounts are contained on pages 36 to 67.

Notes to the Accounts

for the Year ended 30 November 2020

General information and basis of preparation

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.

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

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

The Directors have prepared these Accounts on a going concern basis as set out in the Directors' Report on pages 9-15.

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: freehold land and buildings, derivative financial instruments and financial instruments classified either at fair value through 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 transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

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

Fair value changes in derivatives and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in gains less losses on 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.

1.5 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or 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 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. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. 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 direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.2). When the Society chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

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

• Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise 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 OCI 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 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.

Fair value hedges

On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. 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 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%.

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

Notes to the Accounts continued

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 OCI 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.

Measurement

Amortised cost measurement

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

Fair value measurement

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

When available, the 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 – i.e. 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.

The Society considers evidence of impairment for loans and advances and available-for-sale investment securities at both a specific asset and a collective level. All individually significant loans and advances and available-for-sale investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and available-for-sale investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and available-for-sale 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 lesser 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 OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

1.7 Cash and cash equivalents

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

The Statement of Cash Flows has been prepared using the indirect method.

1.8 Tangible fixed assets

Freehold land and buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of valuation, less any depreciation subsequently accumulated and subsequent impairment. The difference between the amount of depreciation charged in the year on the revalued amount and what would have been charged based on the historical cost is transferred between the Revaluation Reserve and General Reserves each year. Full valuations are completed at least every five years followed by interim valuations three years later. The Directors review the valuations to confirm that they remain appropriate in the intervening years. Increases in valuations of freehold properties are credited to the Revaluation Reserve except to the extent that they reverse previous impairment losses recognised in the Income Statement for the same assets, in which case they are credited to the Income Statement. Decreases in valuations are recognised in the Income Statement except to the extent that they reverse amounts previously credited to the Revaluation Reserve for the same assets, in which case they are recognised in the Revaluation Reserve.

All other 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

Notes to the Accounts continued

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.

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 - 15 years
- equipment, fixtures and vehicles 5 - 10 years
- computer equipment 3 - 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since 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 in accordance with Section 27 of FRS 102.

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 is 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 profit or loss.

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 Balance Sheet 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 Critical estimates and judgements

The Society makes critical estimates and judgements in the following areas:

• 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. Impairment provisions are calculated using externally provided probability of 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 i) altering the percentage of collateral that it is estimated would be recovered in the event of repossession by +/-5%, and ii) altering the probability of default by +/-50%. The combined effect of favourable stresses resulted in an increase in profit for the year of £324,000. The combined effect of adverse stresses resulted in a decrease in profit for the year of £191,000. The impairment provision would decrease or increase accordingly.

• 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 uses 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 net interest income by £467,000. Halving the period however decreased net interest income by £245,000. The EIR asset increases or decreases accordingly.

• Defined benefit pension scheme

The defined benefit pension scheme exposes the Society to actuarial risks such as investment risk, interest rate risk, inflation risk and longevity risk. In conjunction with its actuaries the Society makes key financial assumptions that are used in the actuarial valuation of the defined benefit pension obligation and therefore changes to these assumptions have an impact on the pension obligation shown within the Statement of Financial Position. The key assumptions include inflation rates, discount rates and life expectancy. See note 9 for further details on these assumptions. A decrease in discount rate of 0.25% per annum would increase liabilities by £313k, an increase in inflation of 0.1% would increase inflation linked liabilities by 2% and a one year increase in life expectancy would increase liabilities by 2%. Each of these sensitivities considers that change in isolation.

02 Interest receivable and similar income

	2020 £000	2019 £000
On loans fully secured on residential property	17,558	18,019
On other loans	42	50
On debt securities		
Interest and other income	152	256
On other liquid assets		
Interest and other income	315	834
Net expense on asset related derivatives	(828)	(34)
	17,239	19,125

03 Interest payable and similar charges

	2020 £000	2019 £000
On shares held by individuals	5,136	6,365
On deposits and other borrowings		
Subordinated liabilities (aggregate financing costs)	7	428
Bank of England Term Funding Scheme	85	334
	5,228	7,127

04 Gains less (losses) from other financial instruments at fair value through profit and loss

	2020 £000	2019 £000
Derivatives in designated fair value hedge relationships	(1,963)	(1,541)
Adjustments to hedged items in fair value hedge relationships	1,953	1,105
Derivatives not in designated fair value hedge relationships	20	(9)
	10	(445)

05 Administrative expenses

	2020 £000	2019 £000
Staff costs		
Wages and salaries	4,337	4,114
Social security costs	447	424
Other pension costs	407	378
	5,191	4,916
Other administrative expenses	4,343	4,568
	9,534	9,484

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

	2020	2019
Audit of these financial statements	115	120
Other Services	13	21
	128	141

These fees are shown exclusive of VAT. Other Services includes an interim review of half year profit for regulatory capital recognition purposes Nil (2019: £21k) and an assurance report in connection with the Bank of England's Term Funding Scheme: £13k (2019: Nil).

Please note 2019 comparatives were paid to the previous auditors, KPMG LLP.

06 Remuneration of Directors

Table 1 Non-Executive Directors	2020 fees £000	2019 fees £000
V Dias (retired 24 June 2019)	–	18.7
P Elcock (Deputy Chairman resigned 24 March 2020)	11.0	30.5
A Harris (Chairman)	46.5	45.0
S J Reid	31.9	29.5
M A Tennens (retired 24 March 2019)	–	8.9
E Lenc (appointed 24 October 2019)	28.6	4.0
S Liddell	30.5	26.9
F Ryder	28.5	26.7
S Hill (appointed 1 April 2020)	17.3	–
Total	194.3	190.2

Non-Executive Directors also receive reimbursement for travel and subsistence expenses incurred as part of their duties, in line with the Society's expense policy.

		Performance Related Pay					
	Salary	Payable now	Deferred	Benefits	Sub Total	Pension Entitlements	Total
Table 2 Executive Directors	£000	£000	£000	£000	£000	£000	£000
2020							
R Norrington (Chief Executive)	175.9	17.6	8.8	25.3	227.6	35.1	262.7
P Johnson (Finance Director)	63.5	6.1	3.0	5.7	78.3	11.1	89.4
I Brighton (Operations Director)	108.5	5.8	11.6	11.4	137.3	18.9	156.2
T Slater (resigned 28 May 2020)	60.4	–	–	10.1	70.5	10.5	81.0
Total	408.3	29.5	23.4	52.5	513.7	75.6	589.3

Mr Norrington and Mr Johnson have elected to receive cash payments in respect of pension entitlements. Benefits include health care, car allowance and travel allowance.
Mr Johnson's remuneration includes remuneration paid to him as Finance Director Designate.
Total Directors' remuneration amounted to £783,600 (2019: £773,800).

		Performance Related Pay					
	Salary	Payable now	Deferred	Benefits	Sub Total	Pension Entitlements	Total
	£000	£000	£000	£000	£000	£000	£000
2019							
R Norrington (Chief Executive)	173.3	23.5	11.7	25.3	233.8	34.7	268.5
T Slater (Finance Director)	119.0	–	–	20.0	139.0	20.8	159.8
I Brighton (Operations Director)	104.5	14.1	7.1	11.5	137.2	18.2	155.4
Total	396.8	37.6	18.8	56.8	510.0	73.7	583.7

07 Employees

The average number of persons, including Executive Directors, employed during the year was as follows:

	2020 Full time	2020 Part time	2019 Full time	2019 Part time
Head Office	65	29	61	26
Branch offices	18	31	20	31
	83	60	81	57

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, not part of a group and operates only in the United Kingdom.

	2020 £000	2019 £000
Turnover	12,080	11,505
Profit before tax	1,915	1,883
Corporation Tax paid	200	400
Number of Employees on a full time equivalent basis	See note 7	See note 7

Turnover is defined as net profit on financial operations.

During the year the Society has participated in the Bank of England Term Funding Scheme. Details of drawings can be seen in note 22.

Corporation tax paid in 2020 is in respect of the results for the year ended 30 November 2019.

09 Pension arrangements

(a) Defined benefit pension 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. The scheme is closed to future accrual and all members are either in receipt of a pension payment or are entitled to deferred benefits.

A scheme actuarial valuation was carried out at 30 November 2018 and revealed a funding shortfall of £466,000. To eliminate this shortfall, the trustees and Society have agreed that additional contributions will be paid to the scheme. In accordance with this recovery plan, the Society made a payment of £118,000 in January 2020, with a further annual payment of £100,000 made in December 2020. Future annual payments of £100,000 will be made in 2021 and 2022. The Funding shortfall is therefore expected to be eliminated by 30 November 2022.

The next triennial actuarial valuation will be dated 30 November 2021. The Society has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund.

	2020 £000	2019 £000
Present values of defined benefit obligation, fair value of assets and defined benefit asset liability		
Fair value of plan assets	6,735	6,186
Present value of defined benefit scheme obligation	(6,892)	(6,276)
Deficit in the plan	(157)	(90)
Defined benefit scheme liability to be recognised	(157)	(90)
Deferred tax	27	15
Net defined benefit liability to be recognised	(130)	(75)

09 Pension arrangements (continued)

	2020 £000	2019 £000
Reconciliation of opening and closing balances of the defined benefit obligation		
Defined benefit obligation at the start of the period	6,276	6,728
Interest expense	124	180
Actuarial losses	684	339
Benefits paid	(192)	(851)
Gains due to benefit changes	–	(120)
Defined benefit scheme obligation at the end of the period	6,892	6,276

	2020 £000	2019 £000
Reconciliation of opening and closing balances of the fair value of the plan assets		
Fair value of plan assets at start of period	6,186	6,297
Interest income	123	181
Actuarial gains	500	209
Contributions by the Society	118	350
Benefits paid	(192)	(851)
Fair value of plan assets at end of period	6,735	6,186

The actual return on the scheme assets over the period ending 30 November 2020 was a gain of £623,000 (2019: £390,000).

	2020 £000	2019 £000
Defined benefit scheme expense/(income) recognised in profit or loss		
Net interest (cost)/benefit	(1)	1
Gains due to benefit changes related to guaranteed minimum pension entitlements	–	120
Defined benefit scheme (costs)/benefit recognised in profit or loss	(1)	121

	2020 £000	2019 £000
Defined benefit scheme costs recognised in other comprehensive income		
Return on scheme assets (excluding amounts included in net interest cost)	501	209
Experience gains arising on the plan liabilities	30	339
Losses due to effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	(714)	(679)
Total loss recognised in other comprehensive income	(183)	(131)

During October 2018 the High Court made a ruling in the Lloyds Banking Group Pension Scheme Guaranteed Minimum Pension (GMP) equalisation case. This directed defined benefit pension schemes to change their rules to equalise the benefits of male and female members for the effects of GMPs for employees who at one time were contracted out of state schemes. This resulted in an additional charge to profit of £31k before tax in the year ended 30 November 2018.

On 20 November 2020, the High Court made a subsequent ruling that Lloyds Baking Group Pension Scheme trustees are also responsible for equalising the GMPs for members who transferred out of one of its defined benefit pension schemes. No time bar applied to this ruling. This means the Society defined benefit pension scheme may also have a liability to members who accrued GMP's between May 1990 and April 1997 and have subsequently transferred out. No recognition of a potential liability for GMP equalisation for transferred out members is reflected within these financial statements. Initial actuarial analysis of historical data does not suggest the impact on the Society pension liability recognised will be material.

09 Pension arrangements (continued)

	2020 £000	2019 £000	2018 £000
Assets			
Growth fund	4,245	2,616	2,326
Bonds	341	2,170	2,071
Cash	26	1,400	1,900
Liability Driven Investments	2,123	–	–
Total assets	6,735	6,186	6,297

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	2020 % per annum	2019 % per annum	2018 % per annum
Rate of discount	1.55	2.00	3.00
Inflation (RPI)	3.00	2.80	3.35
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.00	2.80	3.35
Allowance for pension in payment increases of RPI or 5% p.a. if less	2.90	2.75	3.20
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.00	2.00	2.15
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 2020 imply the following life expectancies:

	2020	2019
Male retiring in current year	22.2	21.4
Female retiring in current year	23.9	23.3
Male retiring in 2045 (2019: 2044)	23.6	22.8
Female retiring in 2045 (2019: 2044)	25.4	24.9

The best estimate of contributions to be paid by the Society to the scheme for the period commencing 1 December 2020 is £200,000.

(b) Defined contribution pension 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.

Summary of employer's contributions:

Employer's contributions included within the Accounts were fully paid to the scheme and were as follows:	2020 £000	2019 £000
Defined contribution scheme	407	378

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

10 Tax on profit on ordinary activities

	2020 £000	2019 £000
UK corporation tax at 19% (2019: 19%)	266	181
Adjustment for previous periods	–	–
Current tax charge for the year	266	181
Deferred tax:		
Origination/reversal of timing differences	152	201
Change in rate	24	–
Adjustments in respect of previous years	(115)	53
Total deferred tax	61	254
Tax on profit on ordinary activities	327	435

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:

	2020 £000	2019 £000
Profit before tax	1,915	1,883
Theoretical tax charge at the standard rate of 19% (2019: 19%)	364	358
Effects of:		
Expense items not deductible for tax purposes	54	47
Utilisation of deferred tax items at differing rates	–	(23)
Deferred tax rate changes	24	–
Adjustments in respect of prior years	(115)	53
Current tax charge for the year	327	435

Deferred tax has previously been calculated at a rate of 17% based on the 2016 Budget announcement that this Corporation Tax rate would apply from 1 April 2020. The UK Government announced that the Corporation Tax main rate for the years starting 1 April 2020 and 2021 would remain at 19% in the 2020 Budget. For accounting purposes, the Society has therefore revalued deferred tax asset and liability exposures at 19%.

	2020 £000	2019 £000
Deferred tax assets and liabilities		
Deferred tax assets		
Retirement benefit obligations	30	127
Employee benefits	20	21
	50	148
Deferred tax liabilities		
Accelerated capital allowances	(350)	(423)
Property revaluation	(240)	(225)
Business asset rollover relief	(33)	(30)
Available for sale assets	(5)	–
Other	(11)	(11)
	(639)	(689)
Net deferred tax liability	(589)	(541)

The Society changed its accounting policy in 2018, carrying freehold property at fair value less accumulated depreciation. Deferred tax has therefore been recognised on unrealised property valuation gains.

Deferred tax has been recognised on gains recognised in 2004 on the sale of freehold properties where taxable gains have been rolled over into replacement property assets. Such tax would become payable only if the replacement property were sold without it being possible to claim subsequent rollover relief.

11 Cash and cash equivalents

	2020 £000	2019 £000
Balances held with the Bank of England	89,506	109,550
Cash in hand	442	351
	89,948	109,901

12 Loans and advances to credit institutions

	2020 £000	2019 £000
Accrued interest	–	11
Repayable on demand	2,322	3,366
Due in more than 3 months but not more than 1 year	–	2,000
	2,322	5,377

13 Debt securities

	2020 £000	2019 £000
Certificates of deposit	15,037	17,104
Floating rate notes	12,254	10,010
	27,291	27,114

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

	2020 £000	2019 £000
Accrued interest	44	112
In not more than one year	10,025	27,002
In more than one year	17,222	–
	27,291	27,114

All debt securities held are issued by borrowers other than public bodies and are unlisted and transferable.

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 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:

	2020 £000	2019 £000
At 1 December	27,002	17,032
Additions	27,219	17,000
Disposals	(27,002)	(7,008)
Fair value changes through other comprehensive income	29	(22)
At 30 November	27,248	27,002

14 Derivative financial instruments

	2020 Fair value - assets £000	2020 Fair value - liabilities £000	2019 Fair value - assets £000	2019 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	25	2,964	25	1,002
Derivatives not designated as fair value hedges				
Interest rate swaps	15	47	10	61
	40	3,011	35	1,063

At 30 November 2020 £3,435k (2019: £1,170k) of cash has been pledged against derivative contracts.

15 Loans and advances to customers

	2020 £000	2019 £000
Loans fully secured on residential property	565,594	521,992
Loans fully secured on land	717	745
Fair value adjustment for hedged risk	2,598	643
	568,909	523,380
Less: allowance for impairment (Note 16)	(555)	(318)
	568,354	523,062

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

	2020 £000	2019 £000
In not more than three months	2,839	1,164
In more than three months but not more than one year	3,341	2,111
In more than one year but not more than five years	33,718	31,396
In more than five years	526,413	488,066
Fair value adjustment for hedged risk	2,598	643
	568,909	523,380
Less: allowance for impairment (Note 16)	(555)	(318)
	568,354	523,062

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.

Loans and advances to customers include an amount relating to the effective interest rate adjustment of £258k (2019: £138k).

16 Allowance for impairment

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Provisions for losses on loans and advances fully secured on residential property have been made as follows and deducted from the appropriate asset values shown in the Statement of Financial Position:			
Individual impairment allowance			
At 1 December 2019	19	–	19
Amounts written off during the year, net of recoveries	(7)	–	(7)
Charge/reversal for the year	–	–	–
At 30 November 2020	12	–	12
Collective impairment allowance			
At 1 December 2019	299	–	299
Amounts written off during the year, net of recoveries	–	–	–
Charge/reversal for the year	244	–	244
At 30 November 2020	543	–	543
Individual impairment allowance			
At 1 December 2018	133	–	133
Amounts written off during the year, net of recoveries	(27)	–	(27)
Charge/reversal for the year	(87)	–	(87)
At 30 November 2019	19	–	19
Collective impairment allowance			
At 1 December 2018	454	–	454
Amounts written off during the year, net of recoveries	–	–	–
Charge/reversal for the year	(155)	–	(155)
At 30 November 2019	299	–	299

In determining the collective provision, Management consider borrowers' ability to service their loans, the value of collateral held, the size of any forced sale discount that could be incurred and the general economic conditions prevailing at the time. In 2019 a collective provision of £200k was established as a result of the uncertainties surrounding Brexit. The value of residential property has risen by over 6% in the last year, however, in light of the current global pandemic statistical data based on past trends cannot be solely relied upon to forecast possible future losses. Therefore, the factors considered in determining the amount of capital to be set aside for these losses this year have had to be widened to take into account the potential for house prices to fall and for borrowers to succumb to financial difficulties, particularly when the Government's measures regarding stamp duty and payment deferrals end. Management have, therefore, decided that it is appropriate to create an additional overlay this year for losses that have not yet been incurred. The size of this overlay is £260k.

17 Tangible fixed assets

	Freehold buildings £000	Short leasehold buildings £000	Equipment, fixtures, vehicles £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 December 2019	4,152	817	565	588	6,122
Additions during year	–	–	–	40	40
Disposals during year	–	–	(9)	–	(9)
Revaluation	–	–	–	–	–
At 30 November 2020	**4,152**	**817**	**556**	**628**	**6,153**
Depreciation					
Balance at start of year	80	673	452	509	1,714
Charged in year	73	11	25	38	147
Disposals during year	–	–	(9)	–	(9)
Revaluation	–	–	–	–	–
At 30 November 2020	**153**	**684**	**468**	**547**	**1,852**
Net book value					
At 30 November 2020	**3,999**	**133**	**88**	**81**	**4,301**
At 30 November 2019	4,072	144	113	79	4,408

The net book value of land and buildings occupied by the Society for its own activities comprises:	**2020 £000**	2019 £000
Freehold	**3,999**	4,072
Short leasehold	**133**	144
	4,132	4,216

Freehold land and buildings were professionally valued by Akermans, Chartered Surveyors, on an existing use basis as at September 2018.

In accordance with the Society's accounting policy, the carrying value of £3,999k has been reviewed by the directors at 30 November 2020 and is considered to be appropriate. Under the historical cost basis the carrying amount of Freehold land and buildings would have been £2,745k (2019: £2,793k).

The amount of depreciation charged in the year to 30 November 2020 based on the revalued amount was £73k compared to £48k which would have been charged under the historical cost method. An amount equivalent to the difference has therefore been transferred from the Revaluation Reserve to General Reserves in accordance with accounting policy.

18 Intangible assets

	Software development costs £000
Cost	
At 1 December 2019	2,011
Additions during year	32
At 30 November 2020	**2,043**
Amortisation	
At 1 December 2019	1,134
Charged in year	215
At 30 November 2020	**1,349**
Net book value	
At 30 November 2020	**694**
At 30 November 2019	877

19 Other assets

	2020 £000	2019 £000
Cash collateral pledged against derivative financial instruments	3,435	1,170
Other	13	18
Corporation tax	82	148
	3,530	1,336

20 Prepayments and accrued income

	2020 £000	2019 £000
Prepayments	216	229
	216	229

21 Shares

	2020 £000	2019 £000
Held by individuals	582,019	556,677

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

	2020 £000	2019 £000
Accrued interest	1,240	1,620
Repayable on demand	579,988	553,967
In not more than three months	–	–
In more than three months but not more than one year	791	1,090
	582,019	556,677

22 Amounts owed to credit institutions

	2020 £000	2019 £000
Accrued interest	5	38
Bank of England Term Funding Scheme	30,000	30,000
	30,005	30,038

Amounts owed to credit institutions are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:

	2020 £000	2019 £000
Accrued interest	5	38
In not more than three months	–	–
In more than three months but not more than one year	25,000	–
In more than one year but not more than five years	5,000	30,000
	30,005	30,038

The Term Funding Scheme is a Bank of England scheme where funds are lent to firms on a four year term secured by retail mortgages.

At 30 November 2020 the Society had £65m of mortgages pledged as collateral within this scheme.

23 Amounts owed to other customers

	2020 £000	2019 £000

Amounts owed to non-member depositors are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:

	2020 £000	2019 £000
Accrued interest	37	91
On demand	42,248	46,341
	42,285	46,432

24 Other liabilities

	2020 £000	2019 £000
Other taxation and social security costs	129	117
Other creditors	270	179
	399	296

25 Accruals and deferred income

	2020 £000	2019 £000
Accruals relating to derivatives	151	24
Other	916	904
	1,067	928

26 Subordinated liabilities

	2020 £000	2019 £000
Floating rate subordinated loan repayable 16 March 2020	–	50
Floating rate subordinated loan repayable 1 December 2019	–	500
Net carrying value	–	550
Accrued interest	–	4
	–	554

The subordinated debt held at 30 November 2019 was repaid on its contractual maturity dates.

27 Reserves

	General Reserve 2020 £000	Revaluation Reserve 2020 £000	Available for Sale Reserve 2020 £000	General Reserve 2019 £000	Revaluation Reserve 2019 £000	Available for Sale Reserve 2019 £000
At 1 December (prior year)	34,647	1,072	1	33,282	1,097	19
Total recognised gains/(losses) relating to the financial year	1,440	(20)	24	1,340	–	(18)
Transfer between reserves	25	(25)	–	25	(25)	–
At 30 November	36,112	1,027	25	34,647	1,072	1
Reserves excluding pension liability	36,269	1,027	25	34,737	1,072	1
Net pension liability (Note 9)	(157)	–	–	(90)	–	–
	36,112	1,027	25	34,647	1,072	1

28 Contingent liabilities and commitments

At 30 November 2020, the Society had no capital expenditure commitments (2019: Nil).

Leasing commitments

At the date of the Statement of Financial Position, the total of future minimum lease payments under non-cancellable operating leases were as follows:

	Equipment 2020 £000	Land and buildings 2020 £000	Equipment 2019 £000	Land and buildings 2019 £000
In not more than one year	2	172	2	179
In more than one but not more than five years	2	467	4	508
After five years	–	754	–	736
	4	1,393	6	1,423

Operating lease payments which were included within administrative expenses during the year ended 30 November 2020 were £181k (2019: £179k).

29 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 2020 or 30 November 2019.

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.

The Society operates a closed defined benefit pension scheme which constitutes a related party. Details of this pension scheme can be found in note 9.

30 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. Additionally, 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. The Society employs interest rate swap contracts to manage the interest rate risks as summarised below.

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 2020

	Loans and receivables £000	Available for sale £000	Fair value through profit or loss £000	Total £000
Financial assets				
Cash in hand and balances with the Bank of England	89,948	–	–	89,948
Loans and advances to credit institutions	2,322	–	–	2,322
Debt securities	–	27,291	–	27,291
Derivative financial instruments	–	–	40	40
Loans and advances to customers	565,756	–	2,598	568,354
Other assets	3,448	–	–	3,448
Total financial assets	661,474	27,291	2,638	691,403
Non-financial assets	–	–	–	5,343
Total assets	661,474	27,291	2,638	696,746

30 Financial instruments (continued)

	Other financial liabilities £000	Fair value through profit and loss £000	Total £000
Financial liabilities			
Shares	582,019	–	582,019
Amounts owed to credit institutions	30,005	–	30,005
Amounts owed to other customers	42,285	–	42,285
Subordinated liabilities	–	–	–
Pension liability	157	–	157
Derivative financial instruments	–	3,011	3,011
Accruals	1,067	–	1,067
Other liabilities	270	–	270
Total financial liabilities	655,803	3,011	658,814
Non-financial liabilities	–	–	37,932
Total liabilities	655,803	3,011	696,746

At 30 November 2019

	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	109,901	–	–	109,901
Loans and advances to credit institutions	5,377	–	–	5,377
Debt securities	–	27,114	–	27,114
Derivative financial instruments	–	–	35	35
Loans and advances to customers	522,419	–	643	523,062
Other assets	1,336	–	–	1,336
Total financial assets	639,033	27,114	678	666,825
Non-financial assets	–	–	–	5,662
Total assets	639,033	27,114	678	672,487

	Other financial liabilities £000	Fair value through profit or loss £000	Total £000
Financial liabilities			
Shares	556,677	–	556,677
Amounts owed to credit institutions	30,038	–	30,038
Amounts owed to other customers	46,432	–	46,432
Subordinated liabilities	554	–	554
Pension liability	90	–	90
Derivative financial instruments	–	1,063	1,063
Accruals	928	–	928
Other liabilities	179	–	179
Total financial liabilities	634,898	1,063	635,961
Non-financial liabilities	–	–	36,526
Total liabilities	634,898	1,063	672,487

30 Financial instruments (continued)

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 or SONIA 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.

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 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities (excluding accrued interest)	27,247	–	–	27,247
Loans and receivables	–	186,331	–	186,331
Fair value through profit or loss				
Interest rate swaps	–	40	–	40
	27,247	186,371	–	213,618
Financial liabilities				
Fair value through profit or loss				
Interest rate swaps	–	3,011	–	3,011
	–	3,011	–	3,011

As at 30 November 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities (excluding accrued interest)	27,002	–	–	27,002
Loans and receivables	–	109,476	–	109,476
Fair value through comprehensive income				
Interest rate swaps	–	35	–	35
	27,002	109,511	–	136,513
Financial liabilities				
Fair value through comprehensive income				
Interest rate swaps	–	1,063	–	1,063
	–	1,063	–	1,063

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:

	2020 £000	2019 £000
Loans and advances to customers	65,378	81,964

30 Financial instruments (continued)

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 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:	2020 £000	2019 £000
Balance held with the Bank of England	89,506	109,550
Loans and advances to credit institutions	2,322	5,377
Debt securities	27,291	27,114
Derivative financial instruments	40	35
Loans and advances to customers	565,756	522,419
Fair value adjustment for hedged risk	2,598	643
Other	3,435	1,170
Total Statement of Financial Position exposure	690,948	666,308
Off-balance sheet exposure – mortgage commitments	37,954	30,097
	728,902	696,405

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 hedged risk and are stated before allowance for impairment losses.

30 Financial instruments (continued)

Credit quality analysis of loans and advances to customers

	2020 Loans fully secured on residential property £000	2020 Loans fully secured on land £000	2019 Loans fully secured on residential property £000	2019 Loans fully secured on land £000
Neither past due nor impaired	554,184	717	510,279	745
Past due but not impaired				
Up to 1 month	2,020	–	2,605	–
More than 1 month but less than 3 months	731	–	-	–
More than 3 months but less than 6 months	-	–	-	–
More than 6 months but less than 12 months	-	–	-	–
More than 12 months	-	–	-	–
	2,751	–	2,605	–
Individually impaired				
Not past due	2,197	–	2,125	–
Up to 1 month	1,058	–	904	–
More than 1 month but less than 3 months	574	–	1,553	–
More than 3 months but less than 6 months	1,557	–	987	–
More than 6 months but less than 12 months	1,166	–	1,972	–
More than 12 months	1,875	–	1,256	–
In possession	232	–	311	–
	8,659	–	9,108	–
Allowance for impairment				
Individual	12	–	19	–
Collective	543	–	299	–
Total allowance for impairment	555	–	318	–

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 note 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.

30 Financial instruments (continued)

	2020 £000	2019 £000
Property	401	751

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 (excluding adjustments for impairment, effective interest rate and fair value of hedged mortgages).

	2020 £000	2019 £000
Estimated full value of collateral held	1,569,724	1,422,521
Value of collateral limited to the amount of debt outstanding	566,055	522,599
Percentage of collateral to Loans and advances to customers (capped at 100%)	100%	100%

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 80% (2019: 80%).

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 and adjustment for changes in fair value. 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.

	2020 £000	2019 £000
LTV ratio		
Up to 50%	284,892	246,196
More than 50% and up to 70%	125,684	123,360
More than 70% and up to 90%	146,055	130,272
More than 90% and up to 100%	9,680	22,909
More than 100%	–	–
	566,311	522,737

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 mortgages with renegotiated terms as at the year end:

	Number of accounts	2020 £000	Number of accounts	2019 £000
Account restructured and arrears capitalised	2	77	2	80
Temporary transfer to interest only	17	1,343	21	1,697
Term extension	4	150	4	162
Payment arrangement in place	29	2,391	33	2,810
Multiple forbearance actions	19	1,634	19	1,482
	71	5,595	79	6,231

30 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, which fulfill the specific requirements of the Prudential Regulation Authority ('PRA').

The Society's high quality liquid assets comprise deposits with the Bank of England and investment grade floating rate notes issued by highly rated Multinational Development Banks. The total drawings under the Term Funding Scheme have remained at £30m throughout the year.

At the year end the percentage of total shares and deposit liabilities held in these high quality liquid assets was 15.6% (2019: 18.9%). 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 18.3% (2019: 22.5%).

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 7 years. Conversely, customer deposits (for example, shares) repayable on demand are likely to remain for longer on the Statement of Financial position. 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 2020	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	89,948	–	–	–	–	–	89,948
Loans and advances to credit institutions	2,322	–	–	–	–	–	2,322
Debt securities	–	–	10,025	17,222	–	44	27,291
Derivative financial instruments	–	–	–	40	–	–	40
Loans and advances to customers	–	2,839	3,341	33,718	526,413	2,043	568,354
Other financial assets	–	3,448	–	–	–	–	3,448
Total financial assets	92,270	6,287	13,366	50,980	526,413	2,087	691,403
Non-financial assets	–	–	–	–	–	5,343	5,343
Total assets	92,270	6,287	13,366	50,980	526,413	7,430	696,746
Financial liabilities							
Shares	579,988	–	791	–	–	1,240	582,019
Amounts owed to credit institutions	–	–	25,000	5,000	–	5	30,005
Amounts owed to other customers	42,248	–	–	–	–	37	42,285
Subordinated liabilities	–	–	–	–	–	–	–
Pension liability	–	157	–	–	–	–	157
Derivative financial instruments	–	9	86	2,910	6	–	3,011
Accruals	–	1,067	–	–	–	–	1,067
Other liabilities	270	–	–	–	–	–	270
Total financial liabilities	622,506	1,233	25,877	7,910	6	1,282	658,814
Non-financial liabilities and reserves	–	–	–	–	–	37,932	37,932
Total liabilities and reserves	622,506	1,233	25,877	7,910	6	39,214	696,746

30 Financial instruments (continued)

For the year ended 30 November 2019

	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	109,901	–	–	–	–	–	109,901
Loans and advances to credit institutions	3,366	–	2,000	–	–	11	5,377
Debt securities	–	15,009	11,993	–	–	112	27,114
Derivative financial instruments	–	–	–	31	4	–	35
Loans and advances to customers	–	1,164	2,111	31,396	488,066	325	523,062
Other financial assets	–	1,336	–	–	–	–	1,336
Total financial assets	113,267	17,509	16,104	31,427	488,070	448	666,825
Non-Financial assets	-	–	–	–	–	5,662	5,662
Total assets	113,267	17,509	16,104	31,427	488,070	6,110	672,487
Financial liabilities							
Shares	553,967	–	1,090	–	–	1,620	556,677
Amounts owed to credit institutions	–	–	–	30,000	–	38	30,038
Amounts owed to other customers	46,341	–	–	–	–	91	46,432
Subordinated liabilities	–	50	500	–	–	4	554
Pension liability	–	90	–	–	–	–	90
Derivative financial instruments	–	1	13	1,049	–	–	1,063
Accruals	–	928	–	–	–	–	928
Other liabilities	179	–	–	–	–	–	179
Total financial liabilities	600,487	1,069	1,603	31,049	–	1,753	635,961
Non-Financial liabilities and Reserves	–	–	–	–	–	36,526	36,526
Total liabilities and reserves	600,487	1,069	1,603	31,049	–	38,279	672,487

Non defined maturity items principally comprises loan loss provisions and hedge accounting adjustments.

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 2020

	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	579,988	1,021	3,545	1,213	–	1,240	587,007
Amounts owed to credit institutions	–	7	25,020	5,001	–	5	30,033
Amounts owed to other customers	42,248	105	321	–	–	37	42,711
Subordinated liabilities	–	–	–	–	–	–	–
Pension liability	–	157	–	–	–	–	157
Derivative financial instruments	–	335	841	1,804	–	–	2,980
Accruals	–	1,067	–	–	–	–	1,067
Other liabilities	270	–	–	–	–	–	270
Total financial liabilities	622,506	2,692	29,727	8,018	–	1,282	664,225

30 Financial instruments (continued)

For the year ended 30 November 2019

	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	553,967	971	3,598	1,498	–	1,620	561,654
Amounts owed to credit institutions	–	56	170	30,215	–	38	30,479
Amounts owed to other customers	46,341	116	353	–	–	91	46,901
Subordinated liabilities	–	50	506	–	–	4	560
Pension liability	–	90	–	–	–	–	90
Derivative financial instruments	–	77	205	592	–	–	874
Accruals	–	928	–	–	–	–	928
Other liabilities	179	–	–	–	–	–	179
Total financial liabilities	600,487	2,288	4,832	32,305	–	1,753	641,665

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 and this can have an adverse effect on profit. This exposure may be due to a difference in the timing of when assets and liabilities can reprice to market rates, or to a difference in the basis referenced by interest rates, such as Bank of England base rate and LIBOR or SONIA. 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.

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.

30 Financial instruments (continued)

Interest rate risk at 30 November 2020

	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 central bank balances	89,942	–	–	–	6	89,948
Loans and advances to credit institutions	2,322	–	–	–	–	2,322
Debt securities	12,226	10,025	4,996	–	44	27,291
Derivative financial instruments	–	–	–	–	40	40
Loans and advances to customers	272,348	74,586	219,377	–	2,043	568,354
Other assets	–	–	–	–	8,791	8,791
Total assets before derivatives	376,838	84,611	224,373	–	10,924	696,746
Derivatives - Interest rate swaps	202,000	–	–	–	–	202,000
Total assets after derivatives	578,838	84,611	224,373	–	10,924	898,746
Liabilities and reserves						
Shares	416,485	79,759	84,535	–	1,240	582,019
Amounts owed to credit institutions	30,000	–	–	–	5	30,005
Amounts owed to other customers	42,248	–	–	–	37	42,285
Subordinated liabilities	–	–	–	–	–	0
Derivative financial instruments	–	–	–	–	3,011	3,011
Other liabilities	–	–	–	–	2,398	2,398
Reserves	–	–	–	–	37,028	37,028
Total liabilities before derivatives	488,733	79,759	84,535	–	43,719	696,746
Derivatives - Interest rate swaps	10,000	23,000	164,000	5,000	–	202,000
Total liabilities after derivatives	498,733	102,759	248,535	5,000	43,719	898,746
Interest rate sensitivity gap	80,105	(18,148)	(24,162)	(5,000)	(32,795)	–
Off-balance sheet exposures	(15,626)	153	15,473	–	–	–
Total interest rate sensitivity gap	64,479	(17,995)	(8,689)	(5,000)	(32,795)	–
Sensitivity to general reserves						
Parallel shift of +2%	(386)	195	(431)	506	–	(116)
Parallel shift of -2%	386	(195)	431	(506)	–	116

30 Financial instruments (continued)

Interest rate risk at 30 November 2019

	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Assets						
Cash in hand and balances with central bank	109,840	–	–	–	61	109,901
Loans and advances to credit institutions	3,366	2,000	–	–	11	5,377
Debt securities	15,009	11,993	–	–	112	27,114
Derivative financial instruments	–	–	–	–	35	35
Loans and advances to customers	265,799	69,564	186,552	822	325	523,062
Other assets	–	–	–	–	6,998	6,998
Total assets before derivatives	394,014	83,557	186,552	822	7,542	672,487
Derivatives - Interest rate swaps	164,000	–	–	–	–	164,000
Total assets after derivatives	558,014	83,557	186,552	822	7,542	836,487
Liabilities and reserves						
Shares	401,462	90,699	62,896	–	1,620	556,677
Amounts owed to credit institutions	30,000	–	–	–	38	30,038
Amounts owed to other customers	46,341	–	–	–	91	46,432
Subordinated liabilities	50	500	–	–	4	554
Derivative financial instruments	–	–	–	–	1,063	1,063
Other liabilities	–	–	–	–	2,003	2,003
Reserves	–	–	–	–	35,720	35,720
Total liabilities before derivatives	477,853	91,199	62,896	–	40,539	672,487
Derivatives - Interest rate swaps	24,000	5,000	129,000	6,000	–	164,000
Total liabilities after derivatives	501,853	96,199	191,896	6,000	40,539	836,487
Interest rate sensitivity gap	56,161	(12,642)	(5,344)	(5,178)	(32,997)	–
Off-balance sheet exposures	(15,009)	158	10,597	4,254	–	–
Total interest rate sensitivity gap	41,152	(12,484)	5,253	(924)	(32,997)	–
Sensitivity to general reserves						
Parallel shift of +2%	(531)	88	78	90	–	(275)
Parallel shift of -2%	531	(88)	(78)	(90)	–	275

30 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 mortgages	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.

2020		2019	
Assets £000	Liabilities £000	Assets £000	Liabilities £000
40	3,011	35	1,063

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. Fair value hedges are against 3 month LIBOR or SONIA.

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020. The Society has chosen to adopt the amendments early.

Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates has proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR.

Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3 month LIBOR. The Society has therefore commenced a project to transition away from LIBOR to using a compounded SONIA rate. This transition will be achieved through the use of SONIA swaps for all new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and, where necessary, the replacement of existing LIBOR swaps that mature towards the end of 2021 and beyond. It is not anticipated that the Society will have to rely on the fallback clauses within swap contracts that extend beyond 2021 when the LIBOR market becomes illiquid, rather action will be taken well in advance of this to contractually replace the LIBOR legs of the swaps with SONIA. Two test swap transitions have already been carried out and it is anticipated that the Society will hold no assets or liabilities that reference LIBOR well in advance of the end of the 2021 financial year.

The composition of the portfolio of interest rate swaps used in hedges and held at each year end is shown in the table below.

	2020 £000	2019 £000
Notional value of LIBOR swap contracts used in hedges	104,000	114,000
Notional value of SONIA swap contracts used in hedges	77,000	2,000
Total notional value of swap contracts used in hedges held at 30 November	181,000	116,000
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	21,000	36,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	83,000	78,000
	104,000	114,000

30 Financial instruments (continued)

The hedged mortgage assets that are affected by LIBOR reform are shown in the table below (there were no such hedged liabilities).

	2020 £000	2019 £000
Carrying value of mortgages hedged by LIBOR swap contracts	107,082	106,441
Of which:		
Carrying value of mortgages hedged by LIBOR swap contracts which mature before the end of 2021	21,728	32,877
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 2021	85,354	73,564
	107,082	106,441

The carrying value of mortgages included in hedge relationships is equal to their amortised cost after hedge accounting adjustments.

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. Regulatory capital consists of the Society's general reserves, which are the profits of the Society accumulated over the last 171 years, and reserves relating to the revaluation of freehold property and the carrying value of available-for-sale debt securities. The final tranche of subordinated debt held at November 2019 was repaid in March 2020. 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 Total Capital Requirement. This allows the Board to ensure that the quantity and quality of capital held is both sufficient and appropriate to mitigate the risks the Society faces and to safeguard members' interests.

There were no breaches of capital requirements 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 can be obtained on our website or by writing to the Society Secretary at our head office.

Regulatory Capital

Common equity tier 1 capital	2020 £000	2019 £000
General reserve	36,112	34,647
Revaluation reserve	1,027	1,072
AFS reserve	25	1
Intangible assets	(694)	(877)
Total common equity tier 1 capital	36,470	34,843
Tier 2 capital		
Eligible subordinated debt	–	29
Collective impairment allowance	543	299
Total tier 2 capital	543	328
Total capital	37,013	35,171

Annual Business Statement

for the Year ended 30 November 2020

01 Statutory percentages	2020 %	Statutory limit %
Lending limit	0.9	25.0
Funding limit	11.0	50.0

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

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

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

Business assets are defined as total Society assets plus impairment 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	2020 %	2019 %
As a percentage of shares and borrowings:		
- Gross capital	5.68	5.65
- Free capital	5.00	4.86
- Liquid assets	18.27	22.49
As a percentage of mean total assets:		
- Profit after tax for the financial year	0.23	0.22
- Management expenses	1.45	1.48

"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 2020 and 30 November 2019.

"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 36 to 67.

03 Information relating to Directors at 30 November 2020

Name	Occupation	Date of birth	Date of appointment	Other Directorships
I Brighton CeMAP, CeRGI, CeRCC, CeRCH, AdvCeMAP	Operations Director	22/09/68	01/05/18	Trustee of the Ipswich Building Society Charitable Foundation
A Harris MBA, FCII	Non-Executive Director	22/08/56	01/07/11	Stonebridge International Insurance Ltd Cornerstone International Holdings Ltd The Prince Henry's High School Academy Trust PHHS Trading Company Limited
S A Liddell BSc, FCA	Non-Executive Director	05/11/63	30/11/17	Samsung Fire and Marine Insurance Company of Europe Limited Co-opted member of the Investment Committee and the Finance and Audit Committee of the Seckford Foundation
E Lenc	Non-Executive Director	22/08/59	01/10/19	–
R H B Norrington MA	Chief Executive Officer	18/09/65	30/11/16	–
S J K Reid MA	Non-Executive Director	29/07/63	01/11/16	Wyelands Bank Plc
F Ryder FRSA	Company Director	05/05/67	25/10/18	Norfolk Chamber of Commerce and Industry TCD Media Limited Trustee of Norwich Film Festival
S Hill MA, FCA	Non-Executive Director	23/02/64	01/04/20	Trustee, Place2Be Trustee of the Ipswich Building Society Pension and Life Assurance Scheme Place2Be Trading Limited Yealand Administration Limited
P Johnson FCCA	Finance Director	18/08/68	26/11/20	–

Directors' service contracts

At 30 November 2020 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.

Correspondence and documents

Correspondence to Directors, jointly or individually, should be addressed "Private and Confidential" and c/o BDO, 55 Baker St, Marylebone, London W1U 7EU.

04 Information relating to other Officers at 30 November 2020

Name	Occupation
M Nash MCIB	General Manager (Risk and Compliance)
R J Newman LLB Law	Society Secretary and General Manager (Legal and HR)
L Gladwell	Chief Commercial Officer

IPSWICH
BUILDING SOCIETY

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INVL21 (01/21)