2016

Annual report and accounts

marsden
BUILDING SOCIETY

Contents

2016 was another successful year for the Marsden and we continue to drive the ambition of the Society forward to ensure we remain modern, relevant and continue to deliver a high quality of service to our members.

Our strategy remains focused on strengthening our capability, maintaining the competitiveness of our savings and mortgage products, broadening our products and services to include later life planning and digital platforms and in growing the business leading to an anticipated improvement in the underlying trading performance of the Society.

We will maintain our focus on reviewing the 'member experience' and developing transformation plans that will shape the Marsden and its future. These plans will be important to help support the future requirements of our members, to demonstrate the continued relevance of a mutual building society and the positive impact we will continue to have on individual members and the communities at large.

Rob Pheasey, Chief Executive

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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, registration number 206050.

A member of the Building Societies Association and the Financial Services Compensation Scheme.

Key Financial Highlights

Key Performance Highlights

- Gross Residential Mortgage Advances grew £33.9m to £120.5m, up 39.2% with mortgages arranged for 846 new borrowing members
- Residential Mortgage Balances grew £40.5m to £342.4m, up 13.4%
- Share Balances grew by a net £12.2m to £344.6m, up 3.7% involving new accounts for 1,552 new investing members
- Total Assets grew £12.5m to £416.0m, up 3.1%
- Net Interest Margin increased by 5bps to 1.46% as a result of substitution of liquidity for mortgage lending and an improved lending mix
- Administrative Expenses net of Other Income up 3bps to 1.19% as a result of investment in people
- Profit after Tax of £1.03m, up £0.12m
- Strong Core Tier 1 Solvency Ratio of 25.26%, down 1.30% as a result of growth in mortgage assets
- Society Leverage Ratio of 8.51%, up 0.09%

5 Year Financial Highlights

Year ended 31 December	2016	2015	2014	2013	2012
Net Interest Income (£000)	6,000	5,555	5,558	5,150	4,790
Net Interest Margin (%)	1.46%	1.41%	1.50%	1.49%	1.46%
Admin Expenses Net of Other Income (£000)	4,866	4,570	3,857	3,549	3,646
Admin Expenses Net of Other Income (%)	1.19%	1.16%	1.04%	1.03%	1.11%
Operating Profit before impairment losses and provisions	1,246	1,121	1,775	1,596	1,144
Impairment Losses on Loans and Advances	16	6	(141)	(251)	(90)
Provisions for Liabilities – FSCS (£000)	(87)	(210)	(216)	(295)	(171)
Profit on Sale of Properties (£000)	122	205	91	97	-
Profit before Tax	1,279	1,122	1,420	1,147	883
Profit after Tax	1,029	915	1,175	927	618
As at 31 December					
Share Balances (£000)	344,610	332,452	309,889	286,979	263,287
Loans to Customers (£000)	342,414	301,928	290,218	262,699	241,766
Total Assets	416,004	403,517	384,139	358,221	333,786
Liquidity	67,169	93,867	85,767	88,266	83,838
Wholesale Funding	26,453	24,207	25,153	23,649	22,088
Loan to Deposit Ratio (including Reserves)	111.81%	122.87%	120.53%	124.25%	125.20%
Core Tier 1 Solvency	25.26%	26.56%	26.14%	26.80%	25.70%

Chairman's Statement

It is a pleasure to introduce the 2016 Annual Report for Marsden Building Society. I am pleased to report that we delivered a strong performance in respect of both lending and savings and continued to make excellent progress on our transformation journey.

There remains still more to do, but our strategy to deliver a modern and relevant building society to better support the needs of our members, both now and in the future.

Highlights

- £120.5m increase in gross lending volumes, an increase of 39.2% on the previous year.
- 13.4% increase in the residential loan book to £342.4m,
- 2.9% increase in our retail savings business to £351.4m
- Profit after tax of £1.029m (2015: £0.915m) which maintains a strong capital position, supports our planned investment and ensures value is returned to our saving and borrowing members.

Overview

Our strategy remains focused on strengthening our capability, maintaining the competitiveness of our savings and mortgage products, broadening our products and services to include later life planning and digital platforms.

Our geographic transformation was completed in year with the opening of two new branches and the closure of our remaining four agency offices. In the coming year we have no plans to open new locations, turning our attention instead to ensuring that Marsden branches provide an excellent member experience and supports the planned widening of products and services.

At the heart of the Marsden is our mutual business model defining the special relationship with you, our investing and borrowing members. During the year your Board has had a particular focus on reviewing the 'member experience' and developing transformation plans that will shape the Marsden and its future. These plans will be important to help support the future requirements of our members, to demonstrate the continued relevance of a mutual building society and the positive impact we will continue to have on individual members and the communities at large. The year ahead will deliver significant strategic development - our Chief Executive Rob Pheasey outlines plans for the Society within his review.

We operate the mutual business model for the long term benefits of our members. I am pleased to report that we delivered a strong performance on both the lending and savings sides of the business, achieving an increase in profitability that is so important in underpinning the firm foundations that support our future plans.

Our members

We continue to see the pendulum swinging in favour of borrowers. Driven by increased competition for mortgages, new mortgage rates have continued to fall. As a consequence market rates paid to savers have also reduced. For our savers the approach we have taken, and will continue to take, will seek to maintain the competitiveness of our retail savings rates when compared to our high street competitors. We have worked hard to build our reputation for great products and even better service. At a time of low interest rates, the way in which we deliver the Marsden service together with the expanded product range is key to ensuring we remain relevant to our members and their needs.

Regulatory change

A busy regulatory agenda has continued during the year and shows no sign of diminishing in 2017.The final rules for the strengthening of accountability in banking were published by the Prudential Regulation Authority and the Financial Conduct Authority. We have taken the necessary steps to ensure our governance arrangements reflect the individual accountability brought by the regulatory standard. We further developed our policies and systems to meet the requirements set by the Mortgage Credit Directive, introducing a framework for conduct rules across Europe.

Turning to 2017, our compliance team is tracking a further eleven regulatory change programmes for implementation in the year, including the money laundering directive, deposit guarantee scheme directive and the consumer rights act surrounding unfair terms.

Our people

The ambition for the Society runs across the business and is championed by the Marsden teams whether they are delivering the Marsden service face to face, ensuring we deliver on regulatory requirements, or support across our Society functions. We recognise that the ambition we have set will only be achieved by attracting and retaining individuals of the highest quality, whether drawn to the specialist functions of the Society or within the engaging retail branch teams that are so important in delivering our services to you.

Your Board is confident that the Marsden has a positive future as a successful and strong regional building society. I would like to thank all our staff and stakeholders for their continued support and look forward to another busy and successful year. Finally, I would like to thank you, our members, for your continued support.

R W Barlow
Chairman
2 March 2017

Chief Executive's Review

2016 has seen the delivery of another successful year for the Society and we continue to invest to better prepare us for the future. Before I set out our plans for the future I will provide an overview of what we achieved in 2016.

Operating environment – The Outlook

2016 has been a year of change, with the outcome of the EU referendum and the subsequent decision by the Monetary Policy Committee of the Bank of England to reduce the bank rate to 0.25% being two of the key events in year. In response, your Society, along with many in the sector, lowered mortgage and savings rates. Until the impacts of Brexit are fully understood, there remains real uncertainty for our members on the outlook for the economy in relation to growth, exchange rates, interest rates, unemployment and house prices, with many of our borrowers today accustomed to historically low borrowing rates. This will inevitably impact on our lending activity within certain markets, most notably the higher loan to value and those markets where household total borrowing is high in relation to earned income.

The building society sector remains a secure home for investors and the Marsden has once again continued to benefit from strong retail inflows in year. At a time when the competition for retail savings has remained low, your Society continues to manage the positioning of retail savings for the benefit of members. In response to falling rates we have grown our savings to new members and protected the rates payable to existing loyal savers.

In previous reports we have highlighted the burden of regulation. In the short term, we do not envisage any easing of the changing regulatory landscape. Looking a little further ahead, we will continue to proactively support the strengthening of consumer protection, but we would hope to see a more proportionate UK financial services regulatory regime that both recognises and supports the diversity within the financial services sector.

The immediate market outlook for the Marsden is broadly similar to what we described 12 months ago. Low interest rates will continue and we expect to see increased price competition for mortgages with our operating costs increasing to support our planned investment.

There will continue to be opportunities for the smaller, agile lenders like the Marsden. Our size affords a unique opportunity to capitalise on our underwriting expertise to lend in markets not served by the larger volume lenders. This will underpin our growth ambitions for the business and support the strengthening of our retail savings business.

We want to help more people to save and to live in their own home. Our business model is substantially built on this simple purpose, if we can lend responsibly and in the volume required, we will seek to be more ambitious in our plans to grow our support for savers.

Business Strategy – Progress in detail

Our record lending in year of £120.5m was a significant achievement that supported our planned reduction in overall liquidity. For members this had a number of benefits; it supported the improved profit performance, provided an opportunity to maintain our competitive retail saving rates and supporting for our future investment plans.

A notable achievement in year was the way in which we transformed our support for intermediary customers. In the mortgage market today, our intermediary partners are strategically important, delivering almost 95% of new mortgages with the Society year-on-year.

This direction on distribution is driven in part by our requirement to originate new lending away from the volume market sectors, where low automated processing costs impact on available returns, and towards areas requiring personal underwriting, which is more consistent with our cost base. This strategy is a conscious one that seeks to balance the risk reward from our lending activities, supporting the distribution of benefits to members and delivers an improved profit performance so vital to our investment plans.

In 2016 we continued to grow our mortgage lending with £120.5m of advances, a 39.2% increase on 2015. Overall the residential loan book increased to £342.4m, a 13.4% increase on 2015. This performance demonstrates the support we have provided to new borrowers and the numbers of borrowers choosing to stay with the Society at the end of their current product term.

Today the composition of the book remains concentrated around lower risk residential assets: 75.4% residential, 24.6% buy to let plus a modest portfolio of legacy commercial loans. Asset quality remains high with residential loans having an average indexed loan to value (LTV) of 41.7% (2015: 44.1%) and less than 8.3% (2015: 9.2%) with a current LTV in excess of 80%. The Society currently has limited appetite for commercial lending and continues to manage down its existing exposures in this market.

Mortgage arrears performance is consistently better than the industry as a whole. At the end of 2016, only 0.10% (2015: 0.10%) of residential mortgage balances were 3 months or more in arrear or impaired.

We have continued our support for lending to older borrowers, growing our lending to this market in the year, albeit at lower loan to values (LTV) and anticipate continued growth in the years to come. This will bring with it a requirement for innovation in our lending solutions to meet the changing requirements of our borrowers. We understand that this brings with it new challenges in how we engage with older borrowers, their needs and circumstances will be very different to younger generations taking on new mortgage commitments for the first time.

It is interesting to reflect on the changing demographic of building society members. We are seeing a move by the younger generation of savers seeking an ethical, values driven traditional organisation whilst at the same time seeing a changing borrower profile to the older generation, previously strongly associated with a core savings member. How much of this change is driven by market impacts over the last 10 years is unclear. For the older member, the impact from the sustained reduction in income from retained savings has supported a growing demand to release wealth from property assets. For the younger member, the widening of the gap between earnings and house prices has meant that for many they are moving on to the property ladder later in life and remaining on it for longer.

In 2016, our overall growth in share balances was £12.2m, a 3.7% increase in year. Today, our total retail savings balances, including deposit balances, are £351.4m (2015: £341.5m). We remain focused on maintaining our commitment to the high street supporting both our existing members and welcome new savers too.

In my review last year I shared our plans to see the level of retail savings growth reduce to support the requirement to reduce the excess liquidity which has an impact on earnings and the level of retained profitability. Whilst there is a balance to be struck between slowing our growth and our ability to increase our lending volumes to support the better utilisation of excess funding, the progress we have made in the year by growing our gross lending and at the same time growing our loan base has been extremely positive. We plan to revisit our ambitions to grow the savings business, but this will be tempered by our ability to also grow our lending business.

In 2016, the Society returned a profit after tax of £1.029m (2015: £0.915m). Our current and projected financial performance combined with our significant capital strength - core tier 1 capital ratio of 25.26% (2015: 26.56%) remains one of the highest of any UK building society, this means we will comfortably meet foreseeable regulatory capital requirements.

We anticipate modest growth in our net interest margin in the coming years, accepting this will require careful management to balance given the downward trend in funding costs and the competition within the mortgage market. Net interest income for the year was £6.000m (2015: £5.555m). Our net interest margin (NIM) increased to 1.46% (2015: 1.41%).

Long-term value for members also requires an ongoing focus on the cost of our operations and our control of risk. The underlying management expense ratio net of other income increased to 1.19% (2015: 1.16%), reflecting increased employee headcount and costs and the ongoing investment in the business, in particular change management, IT investment and the refurbishment and expansion of the branch estate.

Business Strategy – Progress in detail

As the Chairman has mentioned, we are part way through a transformation programme that defines the future ambitions for your Society and will enhance both to you and to future generations our relevance and access to our services.

Achievements in year

In my review last year I detailed the variety of programmes we were running and it now seems entirely appropriate to update you on our progress:

A look at what we achieved on business programme change

Gross lending of £120m or +39.2% increase on last year	Closure of agency operations across the retail franchise	New branches opened in Clitheroe & Poulton	Commenced next phase of Retail Transformation
2016 outcome			
• We met our objective in reaching a record gross lending figure of £120m • Total gross lending for 2015 of £86.6m	• The agency offices closed as planned on the 13 May in Clitheroe and 20 May in Kendal, Morecambe and Lancaster.	• Refurbished locations opened and well received	• Foundations set... The next phase of Retail Transformation provides a focus on our people and members

CSR4 platform transition	Confirmation of operating structure	Widening of products and services for members	Digital strategy confirmed
2016 outcome			
• Completed as planned in two phases in year	• We welcomed new people to the Society in year and outlined plans for new operating structures during 2017	• Negotiations with third party providers concluded with implementation planned for Q1 2017	• Board approved digital strategy and new supplier agreements signed Q4 2016. Implementation will be phased throughout 2017-18

Chief Executive's Review (continued)

2016 saw the Society deliver across three core areas: Strategic focus, member focus and business improvement.

Strategic focus

During the year we completed an important aspect of our retail branch transformation with the conclusion of the branch estate change programme involving a move to a branch only model and ensuring infrastructure is located in areas judged most likely to maximise the potential for long term retail balance growth. The biggest member impact arising from the decision was the closure of our remaining agency offices in Lancaster, Morecambe, Kendal and Clitheroe and to open new branches in Clitheroe and Poulton-le-Fylde.

We retained the majority of member balances, whether by retaining existing accounts or transfers to our online or postal services. For some, the loss of the branch office did prompt the move to an alternative high street provider. Our teams supported members with this transition and whilst we would have liked to retain all members, we fully understand the requirements of some to manage their savings accounts face to face.

Our new locations in Clitheroe and Poulton-le-Fylde have been well received and we look forward to successfully growing our membership within these communities. Your Society has no plans to widen branch distribution in the coming year.

Member focus

We continue to invest in our retail teams with a focus on developing our capabilities to better support our members by delivering a great customer experience. When I consider the very best customer service brands, they all demonstrate a strong commitment both to their people and to their customers. We aim to be similarly regarded by our members.

For the future, the Marsden will deliver a widening of products and services for benefit of members. These include funeral planning services in conjunction with Dignity Pre-Arrangement Limited and will writing and legal services in conjunction with the Will Writing Company. These two organisations join our strategic partners supporting us with a wider range of options for members, high quality products and fantastic service.

Business improvement

The increase in gross lending in year was achieved following our investment in service delivery and distribution. We delivered a significant improvement in service support of our intermediary customers, improving our 'first touch' time to decision and turnaround to offer. Today, our satisfaction ratings are at record levels, enabling the Society to support over 4,000 intermediary calls to the Society across the year. We have extended our intermediary partner base, welcoming more firms to experience the service that is 'Marsden for intermediaries'.

The service delivery improvements have been a significant factor in the year's success, but I would like to acknowledge the professionalism of my colleagues in its application.

Looking forward to our future

Key factors underpinning business plan performance for 2017

Targets

- Gross lending of £100m
- Net retail inflow of +£12m
- Achieving forecast mortgage retention on £150m pool
- Widening of product & services take-up from members
- Maintaining a strategic focus on targeted liquidity

Initiatives

People & Engagement 2017
People programme will deliver the strategic focus on the engagement and empowerment of our people.

Brand Review H1 2017
Engaging with all staff and insights from members to influence our vision and purpose.

Reach 2017-2018
Reach programmes will deliver a targeted growth in membership and an improved level of member engagement.

Retail Transition 2017
Retail Transformation will deliver the foundations for improved engagement with colleagues and with members

IT Architecture 2017-2018
IT architecture will deliver a new framework for running & managing IT operations.

Digital Transformation 2017-2018
Digital Transformation will deliver the platforms in support of the business and to build stronger relationships with members.

Intermediary Journey 2 H1 2017
Intermediary Journey 2 will deliver stronger relationships with our intermediary customers.

Strategic focus

Turning to the year ahead, our ambition to evolve the Society into a modern, relevant, member focused mutual will continue. In many ways the transformation programme that we have set for the business is our most challenging in my time as Chief Executive.

Our move to adjust the lending mix is intended to improve the returns available, important to maintain our profitability at a level sufficient to drive our investment plans, whilst ensuring that our financial strength is maintained.

Our primary distribution for new lending remains with our loyal intermediary partners. Having worked hard to establish our brand positioning for intermediaries, the investment in people, technology and business improvements remains a high priority for the year.

Our plans to widen our digital operations to support members have now been set. For our members, this will lead to a widening of engagement. During 2017 our online saving customers will transition to a new online savings platform. Our future plans will allow for the widening of online access to all members, across savings, mortgage retention and savings retention, transforming the way our members in the future use complementary distribution, whether in branch with passbooks, online or over the phone.

I have outlined our plans for investment, but equally important areas of focus surround maintaining: competitively priced mortgage and savings rates, delivering an appropriate focus on operating costs and increasing our balance sheet growth rate to achieve greater economies of scale.

Member focus

Our planned widening of product and services is an important development to respond to the changing requirements of an evolving member base. Our primary distribution focus remains in branch, with retail transformation programmes in year intended to deliver the support that our branch teams will need to better support our members.

As a member owned organisation the service we offer to members is paramount. I am delighted that over 96% of members would recommend the Society. In year, we opened 1,552 new savings accounts, but we were disappointed that the overall membership of the Society reduced during the year. In the years ahead, a growing membership will be an important measure of success for a member owned organisation.

People focus

Our future success will be underpinned by the commitment we continue to give to my colleagues who deliver these services. In the coming year we plan to increase our staff numbers by 10 percent, building capacity within existing teams and adding new skills that will be important to take the business forward. Providing opportunities and rewards will be important to both attract and retain our great people, building a strong 'Marsden employee brand' where colleagues are proud of being part of the Society remains a further strategic priority.

Business improvement

We have undertaken a review of the customer experience in opening and managing savings with the Society. During the year we plan to introduce the convenience of using debit cards within our branches to open and transfer savings balances to the Society.

Being better at what we do

During the year we will continue the progress we have made on improving our delivery for members. Underpinning the transformation agenda will be a requirement to invest in improved governance, striving to raise our member experience levels and in streamlining our business processes to improve efficiency.

Stronger together – The special relationship

I see 2017 as an exciting and challenging year of transformation for the Society, to be delivered by a committed and professional team. When I look back on past years' achievements, I am very confident in our ability to deliver the transformation that will underpin our future, one where we remain modern, relevant and continue to deliver long term value to members.

I would like to congratulate and thank my colleagues at the Marsden for what we have achieved and for their continued support in delivering on our ambition and for the challenges that lie ahead.

I thank our intermediary customers and business partners for their support in year and as we enter 2017, to widen this support to many more organisations. For those who have not yet worked with the Marsden, I would encourage you to work with us and to experience what makes the Marsden different.

Lastly I extend my thanks to those to whom we hold a special relationship, our members. The Marsden is operated for your benefit, by maintaining our financial strength and with your support I am confident that we will continue to grow your Society. We have high aspirations and we hope you will continue to be part of that future.

R M Pheasey
Chief Executive

2 March 2017

Strategic Report

Strategy

Our business strategy supports the requirement to manage the very special relationship with our members, balancing the needs of our savers and borrowers, retaining our focus on capital strength and continuing to invest in infrastructure, products and services that members both today and in the future will require from their Society.

Marsden Building Society is the UK's 25th largest Building Society with £416.0m of assets. Our strategic objective is to grow our savings and mortgage business to deliver long term sustainable value to members. This will be achieved by:

- Funding – Maintaining a primary focus on retail savings from individuals through our branch distribution across Lancashire, continuing to provide a range of savings accounts to those who value the face-to-face, highly personal delivery that is 'Marsden in branch'.
- Lending – Maintaining an exclusive focus on residential and buy to let lending nationally across England and Wales, continuing to base our decision to lend on an individual assessment of loan requirements and personal circumstances.

The Board considers the mutual model to be the best means to deliver long term value for members. It allows the Society to take long term decisions which create value for members and avoid a focus on short term performance. The mutual model has limitations in the ability to raise external capital, particularly for smaller entities, but does permit a focus on generation of sufficient profit to maintain financial strength to support member confidence and development of the business. This ownership structure avoids the requirement of our non-mutual competitors to maximise profit to meet shareholder expectations. Our strategic objectives are supported by a clear focus on the following:

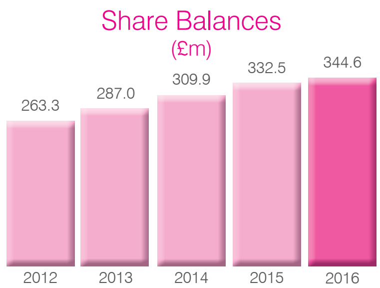
- Customer Proposition – Our strategy will continue to match the products and services available from the Society to the changing needs of our members. The success we have seen in delivering a strong financial performance is matched by the decisions we have taken in supporting the interests of members. We have invested in the retail franchise with new and refurbished office locations, entered new lending markets in support of older borrowers and continued our developments to increase the level of engagement and improve the way we do things.
- People – Our strategy is to run the Society with people who live by the values of the Society in the interests of our members. We aim to ensure that staff are fully engaged in the business through continuing and effective communication and management to maximise business performance. We have invested in improving our focus in this respect during the year and will continue to do so.
- Financial Strength – Our strategy is to utilise our capital strength to grow the business and deliver long term sustainable value for members. Our pricing policies are intended to balance the needs of both saving and borrowing members to achieve an optimum level of profitability reflecting the risk adjusted cost of both funding and lending and the desired level of profit to maintain capital strength. We aim to manage our costs and make investment decisions with a view to building a long term platform for sustainable growth.

Key Performance Indicators

The Chief Executive's Review on pages 4 to 7 provides an overview of the Society's performance during 2016 which should be read in conjunction with this report. This section focuses on the key business performance indicators which the Board reviews on a regular basis. Following the transition to the new UK Accounting Framework in 2015, with comparatives restated for 2014, indicators quoted prior to and for 2013 are prepared in accordance with previous UK GAAP.

Funding

As a mutual, the Society is required to fund the majority of its lending through retail deposits from members. The net change in share balances reflects the net movement in and out of share balances held by individuals with the Society.



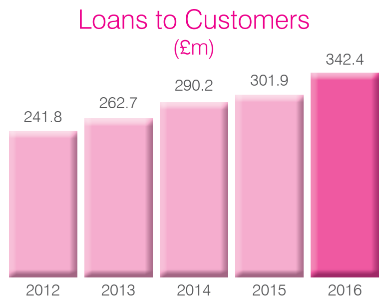
Consistent with the objective of continual review of investment in infrastructure, the Board took the decision to close the agency offices in Kendal, Lancaster and Morecambe, close the agency office in Clitheroe and replace it with a branch office and open a new branch in Poulton-le-Fylde. These decisions, together with other factors including the completion of the branch refurbishment programme and competitive rates on offer, resulted in net growth in share balances of £12.2m to £344.6m, up 3.7% (2015: £22.6m to £332.5m, up 7.3%).

The Society also maintains other deposit funding, predominantly from small and medium sized companies of £6.8m (2015: £9.0m). To provide further diversification the Society maintains a degree of funding from the wholesale markets through a combination of secured funding from banks and term deposits from local authorities and other building societies of £26.5m (2015: £24.2m). The proportion of funding not in the form of shares of 8.9% (2015: 9.1%) of shares and borrowings remains modest and consistent with the strategic objective of attracting funding from individuals.

Lending

As a mutual the Society is required to advance a significant majority of lending secured on residential property. The net change in loans to customers reflects the change in the size of the loan book as a result of new lending net of repayments and redemptions plus interest capitalised.

During the year the Society continued to grow the residential loan book. New advances exceeded the level in 2015 by some margin with new residential mortgage advance growth of £40.5m to £120.5m, up 39.2% (2015: £8.5m to £86.6m, up 10.9%). This contributed to loan book growth of £40.5m to £342.4m, up 13.4% (2015: £11.710m to £301.9m, up 4.0%). The Society funds its lending through retail deposits from individuals and aims to continue to grow lending at a pace at least equivalent to the total of retail savings and reserves.



Society lending is focused primarily on loans to owner occupiers up to 90% LTV and buy to let lending up to 75% LTV. The Society continually evaluates the relative risk reward relationship of different types of residential lending and adjusts its lending mix accordingly having regard to the overall risk appetite of the Board.

Key points to note in respect of loans secured on residential property are summarised below, further information being contained within Note 26 Financial Instruments on pages 50 to 60:

- Lending Analysis – Loans to owner occupiers represents 75.4% (2015: 80.8%) of mortgages secured on residential property with the remaining 24.6% (2015: 19.2%) being secured on residential buy to let property.
- Geographic Analysis – The Society has a nationally diversified portfolio of loans secured on residential property with the largest concentrations of 20.9% in the South East (2015: 20.2%) and 19.7% in the North West (2014: 22.6%).
- Loan to Value Analysis – The average indexed loan to value is 41.7% (2015: 44.1%), the ratio having benefited from increases in house prices during the year.
- Mortgage Arrears – At 31 December 2016 only 0.10% of the portfolio was past due by 3 months or more or impaired (2015: 0.10%).
- Forbearance – Levels of forbearance are modest and relate primarily to short term interest only concessions. Balances recorded as benefiting from forbearance amounted to £0.290m across 4 accounts (2015: £1.131m across 18 accounts)

The Society retains a modest exposure to commercial lending, this aspect of the loan book being managed down. At 31 December 2016 these loans amounted to £3.815m (2015: £4.268m). These exposures are predominantly on commercial premises purchased by borrowers as an investment and to a lesser extent premises occupied by the business owning the property. In terms of geographical location these exposures are located in Northern England. Whilst 62.6% of these loans are past due by 3 months or above or impaired (2015: 59.4%) the exposures are managed closely and are gradually improving, the balances having reduced by £0.176m to £2.751m (2015: £2.927m). Again further analysis is provided in Note 26 Financial Instruments on pages 50 to 60.

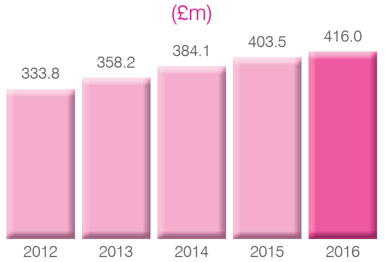
Strategic Report (continued)

Assets

Growth in Society assets is a key factor in improving efficiency arising from economies of scale to provide increased value for members, subject to an appropriate risk reward relationship to ensure the value of members capital is not placed at undue risk.

During the year the Society continued to achieve asset growth in excess of inflation with an increase of £12.5m to £416.0m, up 3.1% (2015: £19.4m to £403.5m, up 5.0%).

Total Assets
(£m)

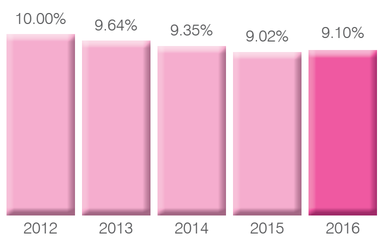


The medium term objective remains to continue to grow the balance sheet to maintain and improve economies of scale given the pressure on both costs and the net interest margin.

Capital

A strong capital position provides a financial cushion against any difficulties which might arise in the business of the Society and provides protection for members and depositors. Society capital is made up almost entirely of retained profits accumulated over its 156 year history.

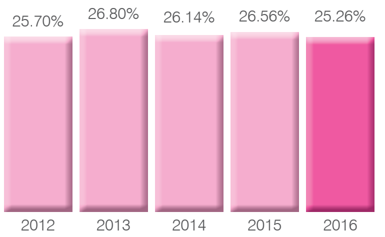
Free Capital Ratio



Free capital represents gross capital and collective mortgage loss provisions less tangible and intangible assets as shown in the balance sheet. Society free capital is £34.4m or 9.10% of total share and deposit liabilities (2015: £33.0m or 9.02%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £35.7m or 9.45% of share and deposit liabilities (2015: £34.8m or 9.51%).

Both free and gross capital ratios, whilst moving modestly in the year, maintain a very strong position. Ratios will continue to reduce over time due to forecast increase in total assets exceeding the rate of growth in capital.

Core Tier 1 Solvency Ratio



In addition to the size of capital resources relative to assets it is important to measure asset size relative to the risk of assets on the balance sheet. The Core Tier 1 Solvency ratio measures the ratio of Society Reserves against Risk Weighted Assets calculated under Capital Requirements Directive IV. In the case of the Society this is under the standardised approach to credit risk which uses standard risk weights and places no reliance on internally developed capital models.

The ratio has reduced in the year by 1.30% to 25.26% (2015: 0.42% to 26.56%) on a like for like comparative basis as a result of an increase in the capital requirement relative to capital resources in comparison to 2015, primarily as a result of the growth in residential mortgage assets substituting for liquid assets with a negligible risk weight.

The Society already holds more than sufficient capital to meet the new capital requirements directive (CRDIV) when fully phased in. CRDIV also introduced the Leverage Ratio, defined as the ratio of Tier 1 capital to the total exposure defined as total on and off balance sheet exposures less deductions from Tier 1 Capital. The ratio increased by 0.09% to 8.51% (2015: 8.42%). The strong level of Core Tier 1 capital relative to the total exposures of the Society will ensure the Society retains one of the strongest Leverage Ratios in the Sector.

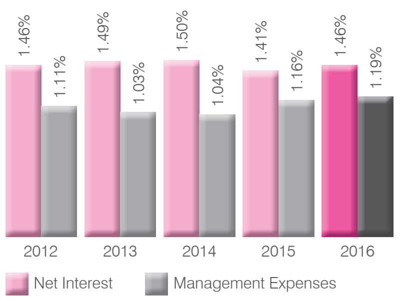
This provides a solid platform from which to pursue a measured and sustainable increase in assets whilst maintaining the protection of a strong capital position for members and depositors. As a result a continued modest and steady reduction in the ratio is anticipated as the balance sheet continues to grow and liquidity is managed down to targeted levels.

The Pillar 3 Disclosure as at 31 December 2016, as required under the CRDIV, which contains key pieces of information on the Society's Capital, Risk Exposures and Risk Assessment Process, is available on the website at www.themarsden.co.uk.

Net Interest Margin

The net interest margin represents the average rate received on assets less the average rate paid on liabilities during the year. The principal drivers of the margin are the net interest received from borrowers and liquid assets less interest paid to investing members and wholesale counterparties. In addition the Society has a reducing number of derivatives taken prior to the financial crisis to hedge long term fixed rate mortgages, the cost of which is also deducted from the net margin.

Net Interest Margin vs Management Expenses Ratio net of Other Income



During the year the Society made significant progress in moving closer to its targeted level of liquidity, the cost of holding excess liquidity having represented a drag on the net interest margin. This is as a result of the cost of investing funds raised from retail savings in liquid assets with a yield at or around bank rate pending them being lent on mortgage at a higher yield. In the short term the Board is prepared to accept this situation as it seeks to build a long term stable funding base from which to grow its lending activities.

The Society constantly refines its mortgage propositions and has continued to invest during the year in engaging with key distribution partners and further improve the quality of servicing of new mortgage applications. In a similar way to new business, the Society maintains a close and continuous focus on mortgage retention propositions and servicing to continue to build longer term relations with existing borrowers. Collectively this will increase the likelihood of operating closer to the targeted level of liquidity in future.

The continued drag on profitability as a result of the cost of derivatives taken prior to the financial crisis to hedge long term fixed rate mortgages was highlighted above. During the year this cost amounted to £0.736m pre tax (2015: £0.872m). Looking further ahead this cost is anticipated to remain at 40% of this level in 2017 and to a negligible amount in 2018.

In respect of mortgage margins, the reduction in Bank Rate on 4 August was passed on in full to borrowers with variable rate loans administered by the Society from 1 November 2016. Inevitably this resulted in a reduction in rates on retail savings notified at the same time; however the extent of the reduction was limited to a degree by the ability of the Society to access term funding in due course under the Term Funding Scheme announced by the Bank of England.

Margins on mortgage lending, both on new business and retention, continued to narrow in the year as the supply of mortgage funding into the market continued to increase. This trend is anticipated to continue into 2017, particularly in the owner occupier space as lenders substitute surplus capacity on buy to let lending into this market following various fiscal and prudential policy changes. This makes the continuing assessment of the risk reward relationship of all lending more important than ever and requiring adjustment to pricing and lending mix.

The Society maintains a stable retail funding base with 32.8% of share and deposit liabilities not accessible within less than three months (2015: 32.3%). During the year ahead the Board intends to operate closer to the targeted level of liquidity, thereby improving the Net Interest Margin for the benefit of members within a prudent framework of liquidity risk management.

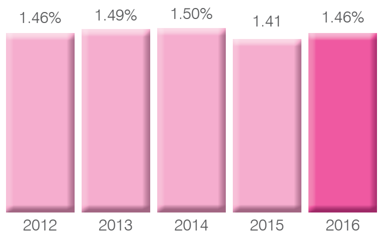
The Board will continue to manage the different interests of investing and borrowing members in response to the market conditions.

Management Expenses

The ratio of management expenses net of other income represents the cost of operating the Society net of fees and commission payable and other non-interest income when measured against mean total assets. This represents a measure of the Society's net cost efficiency.

During the year the ratio of Administrative Expenses net of other income rose 3bps to 1.19% (2015: +12bps to 1.16%). The principal driver of this increase was investment in people in the form of increased headcount and variable remuneration. Increased depreciation was attributable to the continuing branch refurbishment programme and the new locations.

Net interest Margin

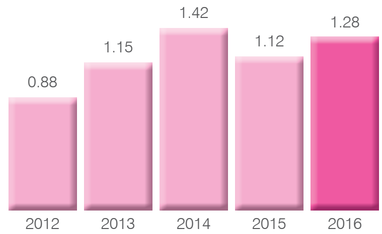


Looking forward, upward pressure on cost continues from a number of sources. During 2017 investment in IT architecture will be made to deliver a new framework for running and delivery of IT moving forward. In addition the planned introduction by the government of the national living wage of £9 an hour by 2020 will also increase cost. This will also have a secondary impact on differentials between employees further up the pay scale at present. The cost of regulation also continues to escalate affecting smaller financial institutions such as the Society to a greater extent.

Profit

As a mutual the maximisation of profit is not a key aim, however maintenance of an appropriate level of profit on ordinary activities is important to maintain financial strength and provide cover against negative impacts on capital.

Profit before tax
(£m)

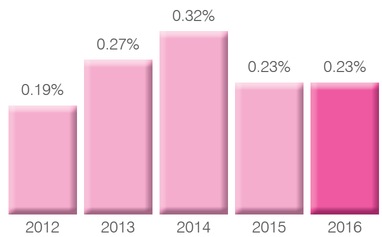


In 2016 the Society's profit before tax was £1.28m (2015: £1.12m). Profit after tax as a percentage of mean assets relates the level of profitability to the average of total assets on the balance sheet at the beginning and end of the year. During the year the ratio remained constant at 0.23% (2015: 0.23%).

The Society is currently benefiting from the unwinding of derivatives not in a designated hedge relationship however these are more than offset by the cost of legacy derivatives outlined above in relation to mortgage margins. The impact of both these factors will continue to impact results in 2017 with a nominal impact in 2018. Following the disposal of the majority of surplus property following restructuring of the retail network in 2016 no further material gains are anticipated from disposal of premises in 2017.

Moving forward the balance will shift from investing in infrastructure to grow the business leading to an anticipated improvement in the underlying trading performance of the Society.

Profit to Mean Assets



Strategic Report (continued)

Principal Risks and Uncertainties

The principal risks facing the Society are summarised below:

- The Society is not immune from the impact of changes in the economic environment within which it operates. The United Kingdom's vote to leave the European Union introduced a significant degree of uncertainty around the outlook for the UK economy. Whilst the principal focus of the Society is domestic it remains exposed to the impact of performance of the UK economy as a whole on its funding and lending activities. This uncertainty will continue, both in the period leading up to, and after, the point at which the UK leaves the EU and could manifest itself in a number of ways from variations in GDP, sterling exchange rates, interest rates, unemployment and house prices. Outside the UK the global economic environment remains challenging with continued weakness in the Eurozone economy, China being exposed to a significant degree of debt relative to GDP and the emerging challenge of increased protectionism to the global economy following the recent US election. The Society continually monitors the economic environment and related risks and responds to downside risks to the performance of the Society as judged appropriate.
- The Building Society Model performs less well in a low interest rate environment. This is because the return on unremunerated capital is reduced as the average return on total assets decreases. In addition as the Net Interest Margin compresses, the larger the cost base of the institution the greater the pressure on trading profitability. Despite this the Society business model has proved resilient since the reduction in Bank Rate to 0.5% in 2009 and the recent reduction in August 2016. At the time of writing the outlook for interest rates is for them to remain lower for some time with a risk of future movement upward or downward dependent on the outlook for the economy. In the absence of monetary policy actions in the form of increased borrowing under the Term Funding Scheme a reduction in rates would result in further compression of the Net Interest Margin impacting on the profitability of the Society but not representing an immediate risk to solvency of the Society. Whilst an increase in rates would be positive for the business model any resulting deterioration in the economic environment may lead to increased loan impairment and related losses on default.
- As competition in the mortgage market increases there is a risk that yields will be further compressed resulting in deterioration in the risk reward relationship in established lending markets. As some markets become less attractive this may prompt the Society to increase or decrease its appetite for particular types of lending in existing markets and extend into new forms of lending secured on residential property in order to strike an appropriate balance between return and capital at risk. Whilst this process is a continuing feature of the lending market the compression of yields at this level of interest rates and level of competition makes the degree of disruption more broad based than usual. The recent changes to fiscal and prudential policy in relation to the Buy to Let Market will reduce demand and prompt lenders to divert greater supply into the owner occupier market further increasing this risk. The change in lending mix will need to be managed carefully to avoid a dip in lending and increased liquidity impacting on profitability. The lending strategy will need careful management to ensure that the Society continues to operate within the risk appetite of the Board.
- The initial drawings made by participating institutions under the Funding for Lending Scheme become due for repayment during 2017 with drawings by the Society due at the end of 2017 and early 2018. Whilst the supply of funding in the retail market remains strong and funding is available in the form of the Term Funding Scheme from the Bank of England repayment of this funding will need to be carefully managed, particularly should funding market conditions deteriorate.
- The residential loan book is currently performing well in the benign interest rate environment with the majority of borrowers currently on variable rate products. Guidance provided by the Monetary Policy Committee indicates when Bank Rate does begin to rise it is expected to do so more gradually and to a lower level than in recent cycles. Whilst the Society maintains prudent control over affordability there is a risk that at the point interest rates rise customers will experience additional financial pressure.

In addition to the specific risks outlined above, the table below provides a summary of the principal sources of risk, Society risk overview and a summary of how the risks are controlled and mitigated.

Source of Risk	Society Risk Overview	Risk control and mitigation
Mortgage Credit Risk The risk that mortgagors will fail to meet their obligations as they fall due which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security.	The principal driver of credit risk in relation to mortgage lending remains a slowdown in the UK economy leading to higher unemployment and falling house prices which would result in increased arrears and impairment losses. Whilst the economy continues to improve the ratio of house prices to earnings continues to deteriorate, particularly in London and the South East. Due to its lending criteria the Society is less active in lending in London with lending diversified across the rest of the UK.	• All mortgage loans are manually underwritten according to a Board approved Lending Policy. • The performance of the loan portfolio is monitored closely with action taken to manage the collection and recovery process. • All portfolios are subject to periodic stress testing to ensure the remain within the quantified risk appetite of the Board.
Counterparty Credit Risk The risk that Market Counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss	Since the financial crisis there has been a shift away from unsecured lending towards secured funding and retail funding. Prudential regulation requires that regulatory liquidity is held in high quality liquid assets reducing risk exposure. Due to a range of prudential regulatory reforms the health of the UK Banking System has improved however the risk of counterparty default remains.	• Liquidity invested according to a Board approved policy and risk appetite. • A significant majority of liquidity is invested with the Bank of England and UK Government Treasury Bills. • Limited short term deposits with approved Bank and Building Society counterparties domiciled and authorised in the UK.
Interest Rate Risk The adverse impact on the Society's future cashflows arising from changes in interest rates including: • Economic Value (NPV) – The risk to the capital value of Society as a result of changes in interest rates. • Earnings Risk (NII) – The risk to profitability of the Society as a result of changes in interest rates. • Basis Risk – The risk to profitability arising from non-parallel movement in net exposures to different interest rate bases. • Optionality – The risk to profit arising from provision of embedded optionality in products such as early prepayment or access with or without penalty.	The Society is exposed to this risk as a retailer of financial instruments, in the form of mortgage and savings products and the investment of both liquid assets and wholesale borrowing. The economic environment remains exceptional by historical standards. The UK vote to leave the EU has introduced a considerable degree of uncertainty over the economic outlook. Accordingly the outlook for UK interest rates varies considerably, both upward and downward, with the market view of the timing of potential rate increases varying considerably.	• The risk is either managed on balance sheet or through interest rate swaps in a manner consistent with the Building Societies Act 1986. • Interest rate risk is managed within a Board Approved Financial Risk Management Policy. • The Board has set out clear quantified statements of risk appetite for each aspect of Interest Rate Risk. Risk exposure is stressed monthly to ensure it is managed in compliance with the policy.

Strategic Report (continued)

Source of Risk	Society Risk Overview	Risk control and mitigation
Liquidity Risk The risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at excessive cost.	The proportion of Society shares and borrowings which comes from shareholding members/retail depositors is 93% (2015: 93%) representing over 102% (2015: 112%) of mortgage loans. When taking reserves as a source of funding in addition to funding from shareholding members and retail depositors this ratio rises to 112% (2015: 124%). The Society is holding a level of liquidity in excess of the amount considered appropriate in anticipation of continued lending growth in 2017. Accordingly a measured reduction in liquid assets is anticipated in 2017 whilst maintaining the amount of liquidity considered appropriate which is held in a conservative mix of high quality and readily accessible assets relative to its perceived requirement.	• The Society manages this risk through continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk. • The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Liquidity and Funding Policy. • Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances.
Operational The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime, business continuity, information technology, people and resources, process and conduct.	The principal operational risks facing the Society are change management, fraud, IT and Cyber Resilience, provision of inappropriate advice to consumers, non-compliance with regulation, key person risk and business interruption.	• Risks and controls are reviewed periodically with a report on the significant operational risks to the Board Risk Committee (BRC). • In respect of regulatory risks, the Society has an independent compliance function which monitors compliance with existing legislation, controls implemented to ensure compliance and the impact of new requirements.

Further information regarding how the Board ensures the Society operates within a framework of prudent controls which enables risk to be assessed and managed is provided within the corporate governance report.

On behalf of the Board of Directors

R W Barlow
Chairman
2 March 2017

Your Board

Our Board is made up of Executive and Non-Executive Directors. Executive Directors are all full-time employees of the Society and lead the Senior Management Team in managing the day-to-day business; and Non-Executive Directors are all considered to be independent in accordance with the criteria set out in the UK Corporate Governance Code. All Directors are put up for periodic election/re-election at the Society's Annual General Meeting.

Roger Barlow BA (Hons) FCA,
Chairman

A member of the Board since 2001, Roger was appointed Chairman in 2006. A fellow of the Institute of Chartered Accountants, Roger holds a number of external directorships including Bank and Clients plc and University Hospital of South Manchester NHS Foundation Trust and is a member of the Audit Committee of the Information Commissioner's Office. Roger chairs the Nominations Committee and is also a member of the Remuneration Committee.

Rob Pheasey BSc (Hons),
Chief Executive

Having joined the Society in 1989, Rob became a member of the Society's Senior Management in 2000. He was appointed to the Board in December 2008 as Operations Director before becoming Chief Executive in March 2011. Rob has overall responsibility for managing the Society and implementing strategies agreed by the Board. Rob is a member of the Assets & Liabilities Board Committee. Outside the Society Rob is Vice Chairman of Nelson & Colne College and Chairman of Pendle Education Trust.

Ian Jeffrey Bullock BSc (Hons), FIA,
Non-executive Director

Ian was appointed to the Board in March 2016. Ian was formerly the Chief Customer Officer and Executive Director at Yorkshire Building Society, and brings strategic, commercial and operational experience across a range of retail financial service sectors. From 2017, Ian will chair the Risk Committee and become a member of the Audit & Compliance and Retail Conduct Committees.

Neal Walker BA (Hons) ACIB,
Finance Director & Chief Risk Officer

Neal joined the Society in 1987, becoming a member of the Senior Management team in 2000 prior to being appointed to the Board in December 2008 as Finance Director & Secretary. As Finance Director, Neal has overall responsibility for financial & budgetary planning, treasury & liquidity risk and risk management functions. Neal chairs the Assets & Liabilities Committee and is also a member of the Risk Committee.

Alison Hope BSc (Hons) FCA,
Senior Independent Director

Alison joined the Board in 2010. A fellow of the Institute of Chartered Accountants, Alison was a partner with KPMG LLP for 15 years, specialising in corporate transactions. Alison is a non-executive director at the Rotherham NHS Foundation Trust and is a Trustee of Eureka! The National Children's Museum. Alison chairs the Audit & Compliance Committee and is also a member of the Nominations Committee. She is also the Senior Independent Director.

Your Board (continued)

Michele Ibbs BA (Hons) PGDip,
Non-executive Director

Michele joined the Board in April 2014. Michele has a breadth of brand, development and partnership experience with a very strong customer led focus across a number of sectors. Outside the Society, Michele is a non-executive Director of The Ombudsman Service Limited and a Trustee of The Liverpool Merchants' Guild. Michele is a member of the following Board committees: Risk, Audit & Compliance and Nominations.

Tim Brooke BA (Hons),
Non-executive Director

Appointed to the Board in April 2014, Tim has extensive risk and governance experience gained in financial services, including the building society sector. Outside the Society, Tim holds a number of external directorships including Charter Court Financial Services Group, Capita Employee Benefits plc and Monzo Bank. Tim chairs the Risk Committee and is also a member of Assets & Liabilities, Audit & Compliance and Remuneration Committees.

Carol Ritchie BA (Hons) ACA CTA,
Non-executive Director

Carol was appointed to the Board in April 2014. Carol has significant Board financial and risk experience gained during interim and permanent positions, including roles at One Family, Engage Mutual, Royal Liver and HBOS Business Banking. Carol chairs the Remuneration Committee and is also a member of Audit & Compliance, Assets & Liabilities and Nominations Committees.

Directors' Report

The Directors' have pleasure in presenting their Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 December 2016.

Business Objectives

Information on the business objectives of the Society are detailed within the Strategic Report on pages 8 to 14.

Business Review and Future Development

The Chairman's Statement on page 3, the Chief Executive's Review on pages 4 to 7 and the Strategic Report on pages 8 to 14 report on the performance of the Society, referring to key performance indicators, and its future objectives.

Principal Risks and Uncertainties

The Strategic Report on pages 8 to 14 provides information on the principal risks and uncertainties facing the Society.

Financial Risk Management Policies and Objectives

The Society's objective is to minimise the impact of financial risk upon its performance. The financial risks facing the Society are summarised together with an overview of arrangements for managing risk in the Strategic Report on pages 8 to 14 and Note 26 Financial Instruments on pages 50 to 60.

Profits and Capital

In 2016 the Society profit before tax was £1.279m (2015: £1.122m). Total profit after tax transferred to general reserves was £0.954m (2015: £0.935m).

Total Society Reserves at 31 December 2016 were £35.723m (2015: £34.769m) with no available for sale reserve (2015: £0.002m)

Free capital represents gross capital and collective mortgage loss provisions less fixed assets as shown in the balance sheet. Society free capital is £34.4m or 9.10% of total share and deposit liabilities (2015: £33.0m or 9.02%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £35.7m or 9.45% of share and deposit liabilities (2015: £34.8m or 9.51%).

Mortgage Arrears

At 31 December 2016 there were no (2015: none) mortgage accounts, including those in possession, which were twelve or more months in arrears. There was no balance outstanding on these loans (2015: none) and no arrears outstanding (2015: none).

Charitable Donations

During the year the Society made a donation of £340 (2015: £392) to North West Air Ambulance in respect of votes received at the Annual General Meeting. In addition the Society accrued for donations of £43,023 (2015: £50,417) with donations paid, up to the signing of the report and accounts, of £50,417 (2015: £48,325) to the following Charities in connection with Affinity accounts relationships:

- North West Air Ambulance
- Burnley and Pendle Hospice
- Sight Advice South Lakes

No contributions were made for political purposes.

Supplier Payment Policy

It is the Society's policy to:

- Agree payment terms at the commencement of trading with all suppliers;
- Ensure there is a system for dealing with queries and advising suppliers of contested invoices; and
- Settle invoices in accordance with payment terms unless there is prior agreement to extend these terms.

The creditor days outstanding at 31 December 2016 were 27 days (2015: 28 days).

Staff

The Board recognises the important contribution made by management and staff to the success of the Society and wishes to thank them for their efforts during 2016.

The Society is committed to effective communication at all levels of operation to enhance understanding and involvement. Employee training and development are important aspects of the business.

It is the Society's policy to ensure that no employee or job applicant is treated less favourably on the grounds of age, gender, race, religion, disability, marital status or sexual orientation. In respect of disabled applicants and employees the Society ensures compliance with the Disability Discrimination Act 1995.

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

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

In preparing the Society's annual accounts, the directors are required to:

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

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

Directors' Report (continued)

Directors' responsibilities for accounting records and internal controls

The directors are responsible for ensuring that the Society:

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

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

Going concern

The Directors have prepared forecasts of the Society's capital, liquidity and financial position for the foreseeable future. The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual accounts.

Post Balance Sheet Events

The Directors consider that no events have occurred since the year end to the date of this report that are likely to have a material effect on the financial position of the Society as disclosed in the accounts.

Directors

The following persons were Directors of the Society during the year:

R W Barlow (Chairman)
T T Brooke
I J Bullock from 1 March 2016
C Buchanan to 29 April 2016
A M Hope Senior Independent Director
M L Ibbs
R M Pheasey* (Chief Executive)
C A Ritchie
N Walker* (Finance Director and Chief Risk Officer)
*Executive Directors

Mr I J Bullock was appointed to the Board on 1 March 2016. Mrs C Buchanan retired from the Board on 29 April 2016.

R W Barlow, A M Hope and R M Pheasey retire by rotation at the Annual General Meeting and being eligible will seek re-election. Mr I J Bullock, being eligible, will seek election without nomination at the Annual General Meeting.

At 31 December 2016 none of the Directors had any interest in the shares, or debentures of any connected undertakings of the Society.

Auditors

The Society's Auditors, KPMG LLP, have expressed their willingness to continue and in accordance with Section 77 of the Building Societies Act 1986, a resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG LLP as auditors of the Society.

On behalf of the board of directors

R W Barlow
Chairman
2 March 2017

Corporate Governance

The Board believes that good governance is vital in providing effective leadership and ensuring the Society continues as a successful organisation run for the benefit for its current and future members.

The Financial Reporting Council published the UK Corporate Governance Code in June 2010. The Code applies to publicly quoted companies. In the interests of transparency the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) also encourage each building society to explain in its annual report and accounts whether, and to what extent, it adheres to the Code.

The Board is committed to having regard to the UK Corporate Governance Code, to the extent that its provisions are relevant to a building society of this scale, in the continuing development of corporate governance practice at the Society. This report explains the extent to which the Society would have complied with the Code issued by the Financial Reporting Council in September 2014, were it required to do so.

Section A: Leadership

A.1 The Role of the Board

Main Principle – Every company should be headed by an effective board which is collectively responsible for the long-term success of the company

The role of the Board is to set the strategic aims of the Society, ensure sufficient financial and human resources are in place to meet the objectives set and to review management performance. The Board also has a duty to ensure the Society operates within a framework of prudent controls which enables risk to be assessed and managed.

The Board has a formal schedule of matters which are reserved to it and has delegated authority in other matters to a number of Board Committees as described below.

The Board Assets and Liabilities Committee meets monthly and considers all matters relating to the economic environment and interest rate view, counterparty credit risk, liquidity risk, interest rate risk (including structural risk) and product pricing and development. The composition of the Committee at 31 December 2016 was N Walker (Chairman), T T Brooke, C A Ritchie and R M Pheasey.

The Board Audit and Compliance Committee meets at least four times each year and considers all matters relating to internal control and risk management systems and regulatory compliance. The Committee receives regular updates from Internal Audit, the Compliance Function and External Audit. The composition of the Committee as at 31 December 2016 was A M Hope (Chairman), T T Brooke, M L Ibbs and C A Ritchie.

The Board Remuneration Committee meets at least once a year and has responsibility for policy on remuneration of the executive directors, senior management and the Chairman. The composition of the Committee as at 31 December 2016 was C A Ritchie (Chairman), T T Brooke and R W Barlow. The Chief Executive attends each meeting by invitation. The Chairman and Chief Executive take no part in the discussion concerning their individual remuneration.

The Board Risk Committee meets at least twice a year and is responsible for oversight and provision of advice to the Board on risk appetite, tolerance and strategy, including strategy for capital and liquidity management, and the embedding and maintenance of a supportive culture in relation to the management of risk. The composition of the Committee at 31 December 2016 was T T Brooke (Chairman), M L Ibbs, A M Hope and N Walker.

The Board Nominations Committee meets at least once a year and has responsibility for succession planning and the appointment of new directors. The Chief Executive attends each meeting by invitation. The composition of the Committee at 31 December 2016 was R W Barlow (Chairman), M L Ibbs, C A Ritchie and A M Hope.

All committees report to the Board. The Board meets as often as is necessary for the proper conduct of business and there are usually eleven meetings a year with a further day focused on strategy. Non-executive directors also meet informally without the executive directors being present.

Details of the number of Board and Committee meetings in 2016 and the attendance record of individual directors are set out below. All directors have the right of attendance at Committee meetings, however only the attendance record of those who were members of the respective Committee meeting is detailed.

Director	Board	ALCO	Risk	Audit & Compliance	Remuneration	Nominations
R W Barlow (Chairman)	10 (10)	-	-	-	2 (2)	1 (1)
T T Brooke	8 (10)	7 (10)	4 (4)	2 (4)	2 (2)	-
I J Bullock (from 1 March 2016)	7 (8)	-	-	-	-	-
C Buchanan (to 29 April 2016)	4 (4)	-	-	1 (1)	-	-
A M Hope (Senior Independent Director)	10 (10)	*1 (1)	4(4)	4 (4)	-	1 (1)
M L Ibbs	9 (10)	-	4 (4)	2 (4)	-	1 (1)
R M Pheasey (Chief Executive)	10 (10)	9 (10)	-	-	-	-
C A Ritchie	9 (10)	9 (10)	-	4 (4)	2 (2)	1 (1)
N Walker (Finance Director & CRO)	10 (10)	10 (10)	4 (4)	-	-	-

() = Number of meetings eligible to attend *Co-opted as a member of the Committee

Corporate Governance (continued)

The Society maintains appropriate liability insurance cover in respect of any legal action against its directors and officers. The Board has access to independent professional advice, at the expense of the Society, if required.

A.2 Division of Responsibilities

Main Principle – There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The roles of the Chairman and Chief Executive are held by different individuals, with a clear division of responsibilities. The letter of engagement issued to the Chairman clearly sets out the responsibilities of the role. The job description of the Chief Executive confirms the overall responsibility for managing the Society and implementing strategies agreed by the Board.

A.3 The Chairman

Main Principle – The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

The Chairman sets the direction and culture of the Board, facilitating effective contribution from directors, maintaining constructive relations between executive and non-executive directors and ensuring that directors receive accurate, timely and clear advice and information. The Chairman was appointed in April 2006, because of his experience, commitment and capability demonstrated during his previous 5 years' service to the Society.

A.4 Non-executive Directors

Main Principle - As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy

The non-executive role at the Society requires:

- understanding of the risks in the business
- commercial leadership within a framework of prudent and effective risk and management controls
- providing an independent perspective, monitoring performance and resources; and
- developing, scrutinising and constructively challenging strategic proposals, whilst supporting executive management

A M Hope was appointed by the Board to the role of Senior Independent Director (SID) in June 2015. The role of the SID is to appraise the performance of the Chairman and act as a focal point of contact for members wishing to make representation to the Board.

Section B: Effectiveness

B.1 The composition of the Board

Main Principle - The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

At 31 December 2015 the Board comprised six non-executive and two executive directors. On 1 March 2016 I J Bullock was appointed to the Board. On 29 April 2016 C Buchanan retired from the Board. At 31 December 2016 the Board comprised six non-executive and two executive directors providing a balance of skills appropriate to the requirements of the Business.

The Board has considered the independence of all non-executive directors. The UK Corporate Governance Code confirms that the test of independence is not appropriate to the position of Chairman. The Board considers all its non-executive directors to be independent in character and judgement.

All non-executive directors excluding the Chairman have held office for less than nine years. R W Barlow was appointed Chairman in April 2006 and will seek now seek annual re-election.

B.2 Appointments to the Board

Main Principle – There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

The Nominations Committee has responsibility for succession planning and the appointment of new directors. Appointments to the Board are subject to a formal, rigorous and transparent process. The Society will utilise executive search and selection consultants to support the process of making new appointments to the Board unless it is judged appropriate not to do so. Where this is not deemed necessary an explanation will be provided within the Corporate Governance Report in the year the appointment is made. During the year the Society appointed I J Bullock to the Board. Executive search and selection consultants were not utilised in this instance as the Board considered it had sufficient access to a pool of candidates with the skills and experience required to make the appointment without external support.

The Society values diversity and reflects this within policy however appointments to the Board are based on merit and on the skills and experience required within the Board as a whole as appropriate to the requirements of the business. For these reasons it does not have a measurable diversity objective.

The Terms of Reference of the Nominations Committee are published on the Society's website. The terms and conditions of appointment of non-executive directors are available on request from the Secretary of the Society.

B.3 Commitment

Main Principle – All Directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively

The requirement for directors to devote sufficient time to discharge their responsibilities effectively is stated in the letter of engagement supplied on appointment. The annual performance evaluation review considers this point. The attendance record during the year of Board and Committee members is set out on page 19.

B.4 Development

Main Principle – All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge

Following appointment, new directors undertake an induction process which involves attendance at a cross-section of Board Committees and external courses and events where appropriate. Directors continue to receive internal briefings and attend external courses and events following induction as required to update their skills and knowledge.

B.5 Information and Support

Main Principle – The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties

The directors receive timely, accurate and relevant information to enable them to fulfil their duties.

All directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board, through the Chairman, on governance matters. The Board has access to independent professional advice, at the expense of the Society, if required.

B.6 Evaluation

Main Principle - The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

At least annually the Chairman conducts a review of the contribution of individual directors taking account of the views of other directors. The Senior Independent Director reviews the performance of the Chairman taking into account the views of other directors. The Board also maintains processes for evaluation of performance of both the Board and individual sub Committees.

All evaluations involve a numeric assessment of performance against predetermined criteria with further comment in support where appropriate. All responses are consolidated by the Secretary and Head of Compliance and presented for review on a non-attributable basis to the Chairman or, in the case of the performance evaluation of the Chairman, the Senior Independent Director.

B.7 Re-election

Main Principle – All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance

All directors are required under the Rules of the Society to submit themselves for election at the first Annual General Meeting following appointment and for subsequent re-election at least every three years.

The current Chairman is now elected annually by the Board. Directors are only submitted for re-election following an assessment of their contribution taking into account the latest evaluation.

The Nominations Committee has responsibility for succession planning and the Board is committed to a situation whereby:

- a non-executive director will serve for a maximum of three terms of three years; and
- if, in exceptional circumstances, it is deemed that a non-executive director should remain on the Board for longer, annual re-election by the membership will be sought.

From April 2017 R W Barlow will seek annual re-election to the Board.

Section C: Accountability

C.1 Financial and Business Reporting

Main Principle – The board should present a balanced and understandable assessment of the company's position and prospects

The responsibility of the directors in respect of preparation of the annual accounts, accounting records and internal controls and the statement that the Society's accounts are prepared on a going concern basis are set out on pages 17 to 18 in the Directors' Report. The Chief Executive's Review on pages 4 to 7 and the Strategic Report on pages 8 to 14 provide members with a detailed review of the position of the Society and its future prospects.

Prior to approval, the Directors review and resolve that the Annual Report and Accounts, taken as a whole:

- are fair, balanced and understandable; and
- that narrative reports are consistent with the financial statements and accurately reflect performance of the Society; and
- contains the information necessary for members to assess the Society's performance, business model and strategy.

C.2 Risk Management and Internal Control

Main Principle – The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems

The Board has a duty to ensure the Society operates within a framework of prudent controls which enables risk to be assessed and managed.

The Board of Directors has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. The Board is also responsible for defining and influencing the culture of risk management across the Society including:

- Determining the Society's appetite for risk;
- Determining which types of risk are acceptable and which are not;
- Providing guidance to management on conduct and probity;
- Review and approval of the Society Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Plan (RRP)

The Board has overall responsibility for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society Internal Capital Adequacy Assessment Process (ICAAP) and ILAAP (Individual Liquidity Adequacy Assessment Process). The Board monitors the role of Management in identification, monitoring and review of major risks facing the Society through the following Committee Structure:

- Board Risk Committee - Responsible for ensuring that both the entire risk management framework and monitoring and oversight of significant risk positions are effective and advising the Board on overall and local risk appetite
- Board, Audit and Compliance Committee - Responsible for ensuring that monitoring of the effectiveness of systems and controls over the whole risk universe, in particular control over significant risks, is effective.
- Board Assets & Liabilities Committee (BALCO) - Responsible for monitoring significant Financial Risks and Markey Counterparty Credit Risks including all types of Interest Rate Risk, Credit Risk (Market Counterparty), Liquidity Risk and Concentration Risk (Non Mortgage).
- Senior Management Committee - The management committee responsible for monitoring and review of strategic risks prior to review at Board. Meets once monthly.
- Mortgage Credit & Concentration Risk Committee - The management committee responsible for monitoring and review of mortgage credit and concentration risks prior to review at the Board Risk Committee. Meets once monthly.

Corporate Governance (continued)

- Operational & Regulatory Risk Committee - The management committee responsible for monitoring and review of operational and regulatory risks prior to review at the Board Risk Committee. Meets at least 10 times each year.
- Interest Rate Risk & Product Pricing Committee - The management committee responsible for monitoring and review of product pricing and interest rate risk prior to review at the Board Risk Committee. Meets at least once monthly.
- Cashflow & Liquidity Risk Committee - The management committee responsible for maintaining a rolling cashflow forecast and monitoring and review of liquidity prior to review at BALCO. Meets once weekly.

The Society operates a three lines of defence model as summarised below:

- The first line of defence is management within the business which through implementation of the Society risk framework identifies, assesses and manages risk.
- The second line of defence is comprised of independent risk functions, in the case of the Society the Risk and Compliance Functions. These functions challenge and guide the business in managing risk exposure. These functions are represented on various risk committees detailed overleaf which feed up to the Board Risk Committee, which is responsible for oversight of the risk management framework and monitoring risk profile against Board Risk Appetite
- The third line of defence is the outsourced Internal Audit function which provides independent assurance to the Board, via the Board Audit & Compliance Committee, of the adequacy and effectiveness of systems and controls in the first and second lines in identifying and managing risk

Senior management is responsible for designing, implementing, maintaining and monitoring the systems of internal control. The Board and each Board Committee has oversight responsibility for risks within its remit. The Society's internal auditors provide assurance that systems and controls are effectively applied.

Each year the Board conducts a review of the effectiveness of the risk management and internal control systems. The review involves consideration of material risks facing the Society and related controls, the adequacy of controls in place to ensure compliance with standards under the regulatory system and the findings of Internal Audit activity in the year. The Board has concluded that the Society operates effective systems and controls which are appropriate to the nature, scale and complexity of the Society's business.

C.3 Audit Committee and Auditors

Main Principle – The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

The Board has an Audit & Compliance Committee consisting of four independent non-executive directors. At the invitation of the Chairman of the Committee, the Chief Executive, Finance Director and Chief Risk Officer and representatives from both Internal and External Audit attend meetings. The Committee meets with representatives of Internal Audit and External Audit without management present prior to the commencement of each meeting. The Board is satisfied that the composition of the Audit and Compliance Committee contains relevant and recent financial sector experience to provide appropriate challenge to management.

Responsibilities of the Committee include:

- Monitoring the integrity of financial statements of the Society
- Reviewing effectiveness of the internal controls and risk management systems.
- Approving the arrangements for whistleblowing.
- Appointment, re-appointment and removal of providers of Internal Audit services.
- Reviewing the effectiveness of the provider of Internal Audit services including consideration of quarterly reports and monitoring the delivery of the Internal Audit Plan.
- Making recommendations to the Board on the appointment, re-appointment and removal of external auditors and approval of their remuneration and terms of engagement.
- Reviewing and monitoring the independence, objectivity and effectiveness of the external auditors and setting and monitoring policy for the engagement of the external auditors to supply non-audit services.
- Reviewing the effectiveness of the compliance functions including consideration of quarterly reports.

The Terms of Reference of the Audit & Compliance Committee are published on the Society's website.

The code recommends a separate section of the annual report to describe the work of the Audit & Compliance Committee. Given the size and scale of the Society this is not considered appropriate however the following information is provided in respect of the work of the Committee:

- The Committee reviews accounting policies applied each year on review of the Annual Report and Accounts. Significant issues in particular policy on assumptions relating to Hedge Accounting, Effective Interest Rate and Loan Impairment Provisioning are considered at least twice a year and Retirement Benefit assumptions once a year by the Committee with comment from External Audit as appropriate.
- The Code recommends that FTSE 350 companies should put the external audit contract out to tender at least every ten years. Broadly speaking, a building society with assets in excess of £1bn is equivalent to a FTSE 350 company. KPMG LLP has acted as auditors to the Society since April 1993 with a policy of periodic rotation of both Audit Partners and Managers. The Audit & Compliance Committee currently has no concerns regarding the independence and objectivity of KPMG LLP or the effectiveness of the audit process. Whilst the Society does not currently have a formal policy on periodic tender for the external audit contract, this matter is considered periodically when deemed appropriate by the Committee.
- During the year EU Audit Reform took effect, the Society being classified as a Public Interest Entity, introducing new requirements in respect of policies on provision of non-audit services by, and mandatory rotation of, the External Auditor. In response to this regulation the Society has revised its policy on provision of non-audit services by the External Auditor and moved its tax compliance work to Deloitte LLP and continues to require Audit Committee approval for engagements above a specified threshold. The reform introduced a fee cap of 70% of the audit fee in relation

to non-audit services over a three year period commencing 2017 which the Society will adhere to. During the year fees for non-audit services relative to audit services were no greater than the audit fee, and in 2016 represented a ratio of 65% (2015: 59%), all engagements having been within the framework designed to prevent compromise of independence. In relation to mandatory rotation of the External Auditor whilst the Society remains satisfied in respect of the independence of KPMG LLP rotation will required following conclusion of the 2020 year end. In the short term an immediate impact of the reform has been the requirement for the rotation of the responsible individual for the Society audit within KPMG.

- The Committee has established a process for evaluation of the performance of both external and internal audit.

Section D: Remuneration

The Directors' Remuneration Report on pages 24 to 25 details the Board's position on code principles related to remuneration.

Section E: Relations with Shareholders

E.1 Dialogue with Shareholders

Main Principle – There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

As a mutual organisation the Society does not have shareholders but is responsible to its members.

The Society has created a focal point for members to communicate their opinions on all aspects of the running of the Society called 'Tell us what you think' both on the Society website and in branch.

A M Hope, the Senior Independent Director, also acts as a point of contact for members wishing to make representation to the Board.

E.2 Constructive use of the AGM

Main Principle – The Board should use the AGM to communicate with investors and encourage their participation.

Each year the Society sends details of the AGM to members who are eligible to vote and encourages members to vote and attend through a donation to charity for each vote cast via proxy or in person. Pre-paid envelopes are included to enable members to appoint a proxy to vote on their behalf if they are unable to attend. The proxy form provides the opportunity to formally abstain from voting should the member so wish. A secure facility to use the branch to deposit proxy votes when visiting our high street outlets is provided. Members also have the option to cast their proxy vote by accessing a secure online voting portal.
At the AGM a poll is called on each resolution and the proxy votes are cast and included in the result. The results are disclosed and subsequently published in branches and on the Society's website. All directors attend the AGM and are available both during and after the meeting to answer questions from members.

R W Barlow
Chairman
2 March 2017

Directors' Remuneration Report

The purpose of this report is to inform members about the policy for the remuneration of executive and non-executive directors. This report also explains the extent to which the Society has complied with the provisions of the UK Corporate Governance Code 2014 relating to Remuneration, were it required to do so. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of the Remuneration Code, as defined by the Regulator.

We are committed to best practice in corporate governance and will ask members to vote, on an advisory basis, on the Directors' Remuneration Report at the forthcoming Annual General Meeting.

D.1 The level and composition of remuneration

Code Principle – Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than necessary for this purpose. A significant proportion of executive directors remuneration should be structured so as to link rewards to corporate and individual performance.

The Society's policy is that remuneration of executive directors and senior managers should be comparable with that of similar organisations in the financial sector to attract, retain, and motivate individuals with the required skills and competence.

Directors' Remuneration

Executive Directors

The remuneration of executive directors is basic salary, an annual bonus (when payable), pension, death in service benefits, company car and private medical insurance.

Basic salaries are reviewed annually taking into account the following:

- individual performance
- salaries and incentives payable to executives in similar roles within building societies and levels generally within the wider financial services industry
- the Society's overall performance

Executive directors participate in the Society's Bonus Scheme. The level of bonus paid is based on criteria set by the Board each year, linked to the overall performance of the Society including both business and risk management objectives. In addition, Executive Directors can receive an amount in excess of the Society Bonus Scheme reflecting individual performance in delivering outcomes in excess of planned performance of the Society. Any payment is taxable but non-pensionable. A 14% bonus, as a proportion of reference salary prior to any salary sacrifice, was payable in respect of 2016 (2015: 12.5%), 8% in respect of the Society Bonus Scheme and 6% in recognition of individual performance (2015: 7.5% plus 5%). Payments under the scheme are made during the first half of the year following that in question and are not currently subject to deferral.

Executive directors participated in a defined contribution Group Personal Pension Scheme which is available to all eligible employees of the Society at a contribution rate of 10% of salary per annum. From 1 July 2011 the Society introduced a Salary Sacrifice Scheme for all staff, in which the executive directors participate.

There are currently no formal service contracts in existence for executive directors at the Society. The employment of executive directors can be terminated by either party giving one year's notice with compensation for loss of office being 12 months remuneration.

Non-executive directors

Remuneration of non-executive directors, excluding the Chairman, is determined by the Chairman and the executive directors taking account of the time commitment and responsibility of the role and the remuneration and conditions for non-executive directors at comparable societies and financial institutions.

Non-executive directors do not participate in the Society's Bonus Scheme or receive other benefits or any pension entitlement. There are no service contracts in existence for non-executive directors of the Society.

D.2 Procedure for determining remuneration

Code Principle: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual directors. No director should be involved in determining his or her own remuneration.

The Remuneration Committee is responsible for determination of policy on the level of remuneration payable to the senior management team and Chairman. The Chairman takes no part in the discussion in respect of his own remuneration. The Committee takes account of information on remuneration payable at comparable building societies and the time commitment and responsibility in respect of the Chairman.

The Remuneration Committee had two meetings during 2016 at which all members of the Committee were in attendance. The composition of the Committee as at 31 December 2016 was C A Ritchie (Chairman), T T Brooke and R W Barlow. The Chief Executive attends each meeting by invitation. The Chairman and Chief Executive take no part in the discussion concerning their individual remuneration.

The Terms of Reference of the Remuneration Committee are published on the Society's website.

Directors' Remuneration Report (audited information)

2016

Non-executive		Fees/Salary £	Variable Remuneration £	Benefits £	Pensions and group life contributions £	Total £
R W Barlow	Chairman	41,106	-	-	-	41,106
T T Brooke		22,611	-	-	-	22,611
C Buchanan	To 29 April 2016	7,499	-	-	-	7,499
I J Bullock	From 1 March 2016	18,871	-	-	-	18,871
A M Hope	Senior Independent Director	22,611	-	-	-	22,611
M L Ibbs		22,611	-	-	-	22,611
C A Ritchie		22,611	-	-	-	22,611
		157,920	-	-	-	157,920
Executive						
R M Pheasey	Chief Executive	140,271	21,210	19,113	29,269	209,863
N Walker	Finance Director and CRO	105,405	16,968	11,334	32,433	166,140
		245,676	38,178	30,447	61,702	376,003

2015

Non-executive		Fees/Salary £	Variable Remuneration £	Benefits £	Pensions and group life contributions £	Total £
R W Barlow	Chairman	40,600	-	-	-	40,600
T T Brooke		22,330	-	-	-	22,330
C Buchanan		22,330	-	-	-	22,330
T J Fallon	To 22 May 2015	9,240	-	-	-	9,240
A M Hope	Senior Independent Director	22,330	-	-	-	22,330
M L Ibbs		22,330	-	-	-	22,330
C A Ritchie		22,330	-	-	-	22,330
		161,490	-	-	-	161,490
Executive						
R M Pheasey	Chief Executive	135,397	18,750	15,999	29,041	199,187
N Walker	Finance Director and CRO	102,005	15,000	10,507	31,955	159,467
		237,402	33,750	26,506	60,996	358,654

Executive directors' salaries are disclosed net of salary sacrificed under the scheme available to all staff, within which the executive directors' participate, with salary sacrificed disclosed within pensions and group life contributions.

C A Ritchie
Chairman of the Remuneration Committee
2 March 2017

Independent Auditor's Report to the members of Marsden Building Society

We have audited the annual accounts of Marsden Building Society for the year ended 31 December 2016 set out on pages 27 to 60. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual accounts

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

Opinion on annual accounts

In our opinion the annual accounts:

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

Opinion on matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

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

David Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
West Yorkshire
LS1 4DA

2 March 2017

Income Statement

For the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Interest receivable and similar income	2	9,882	9,854
Interest payable and similar charges	3	(3,882)	(4,299)
Net interest income		6,000	5,555
Fees and commissions receivable		141	167
Fees and commissions payable		(72)	(84)
Other income		353	313
Net income from financial instruments at fair value through profit and loss	4	112	135
Total Income		6,534	6,086
Administrative expenses	5	(4,976)	(4,680)
Depreciation and amortisation	16,17	(312)	(285)
Operating profit before impairment losses and provisions		1,246	1,121
Impairment losses on loans and advances	15	16	6
Provisions for liabilities – FSCS Levy	24	(87)	(210)
Operating Profit		1,175	917
Profit on disposal of tangible and intangible assets	16,17	104	205
Profit on ordinary activities before tax		1,279	1,122
Tax expense on ordinary activities	9	(250)	(207)
Profit for the financial year		1,029	915

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the period are attributable to the members of the Society. The notes on pages 27 to 60 form part of these accounts..

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Profit for the financial year		1,029	915
Other comprehensive income			
Items that will not be reclassified to the income statement		-	-
Re-measurement of the net defined benefit liability	25	(89)	34
Tax on items that will not be re-classified to the income statement	9	16	(15)
Items which may be subsequently reclassified to the income statement		-	-
Available for sale reserve		-	-
Valuation gains/(losses) taken to reserves	12	-	-
Amount transferred to the income statement	12	(2)	1
Tax on items which may subsequently be re-classified to the income statement	9	-	-
Other comprehensive income/(expense) for the period		(75)	20
Total comprehensive income for the period		954	935

Statement of financial position

For the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Assets			
Liquid Assets			
Cash in hand	10	440	524
Loans and advances to credit institutions	11	55,969	72,067
Debt Securities	12	10,760	21,276
Loans and advances to customers	14	346,229	306,917
Tangible fixed assets	16	1,657	2,021
Intangible assets	17	167	183
Other debtors	18	782	529
Total assets		416,004	403,517
Liabilities			
Shares	19	344,610	332,452
Amounts owed to credit institutions	20	21,046	16,992
Amounts owed to other customers	21	12,188	16,221
Derivative financial instruments	13	385	1,027
Other liabilities	22	455	585
Accruals and deferred income		477	434
Deferred tax liabilities	23	148	120
Provisions for liabilities	24	123	137
Retirement benefit obligations	25	849	780
Total liabilities		380,281	368,748
Reserves			
General reserves		35,723	34,767
Available for sale reserve		-	2
Total reserves attributable to members of the Society		35,723	34,769
Total reserves and liabilities		416,004	403,517

The notes on pages 27 to 60 form part of these accounts.

These accounts were approved by the Board of directors on 2 March 2017 and signed on its behalf:

R W Barlow
Chairman

R M Pheasey
Chief Executive

N Walker
Finance Director and Chief Risk Officer

Statement of changes in members interests

As at the year ended 31 December 2016

	General Reserve 2016 £000	Available for Sale Reserve 2016 £000	Total 2016 £000
Balance at 1 January 2016	34,767	2	34,769
Total comprehensive income for the period			
Profit for the year	1,029	-	1,029
Other comprehensive income	(73)	(2)	(75)
Total comprehensive income for the period	956	(2)	954
Balance at 31 December 2016	35,723	-	35,723

	General Reserve 2015 £000	Available for Sale Reserve 2015 £000	Total 2015 £000
Balance at 1 January 2015	33,833	1	33,834
Total comprehensive income for the period			
Profit for the year	915	-	915
Other comprehensive income	19	1	20
Total comprehensive income for the period	934	1	935
Balance at 31 December 2015	34,767	2	34,769

Cash flow statement

For the year ended 31 December 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Profit before tax	1,279	1,122
Adjustments for	-	-
Depreciation and amortisation	312	285
Profit on disposal of tangible fixed assets	(104)	(205)
Net gains/(losses) on re-measurement of the net defined benefit liability	(89)	34
Net gains on disposal and amortisation of debt securities	(2)	1
Impairment (credit) on loans and advances to customers	(16)	(6)
Total	1,380	1,231
Changes in operating assets and liabilities		
Increase in prepayments, accrued income and other assets	(277)	(12)
Decrease in accruals, deferred income and other liabilities	(514)	(85)
Increase in loans and advances to customers	(39,804)	(11,485)
Increase in shares	12,449	22,725
Increase/(decrease) in amounts owed to credit institutions	4,056	(1,530)
Decrease in amounts owed to other customers	(4,005)	(1,952)
Decrease in loans and advances to credit institutions	4,000	1,500
Increase/(decrease) in retirement benefit obligation	69	(54)
Taxation paid	(221)	(262)
Net cash generated by /(used in) operating activities	(22,867)	10,076
Cash flows from investing activities		
Purchase of debt securities	(24,722)	(35,241)
Disposal of debt securities	35,238	15,967
Purchase of tangible fixed assets	(230)	(750)
Disposal of tangible fixed assets	485	321
Purchase of intangible assets	(83)	(52)
Net cash used in investing activities	10,688	(19,755)
Net decrease in cash and cash equivalents	(12,179)	(9,679)
Cash and cash equivalents at 1 January	68,588	78,267
Cash and cash equivalents at 31 December	56,409	68,588

Notes to the Accounts

1 Accounting Policies

Marsden Building Society (the "Society") has prepared these 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 August 2014. 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 financial statements.

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 section 1.14.

1.1 Changes in accounting policy

There have been no changes in accounting policy during the year.

1.2 Measurement Convention

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

1.3 Interest

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

The calculation of the effective interest rate includes transaction costs and fees and points 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; and
- interest on available-for-sale investment securities calculated on an effective interest basis;

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in Net income from other financial instruments at fair value through profit or loss in the income statement.

1.4 Fees and commission

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

Other fees and commission income, including account administration and legal fees and general and life insurance commission, are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised in the income statement as received.

Other fees and commission expense relate mainly to bank charges and payments in connection with affinity account relationships..

1.5 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the income statement 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. Incentives received on leases commencing on or after 1 January 2015, where material, are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. Timing differences arising as a result of 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 are not provided for. 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 balance sheet date. Deferred tax balances are not discounted.

1.7 Financial Instruments

Recognition

The Society initially recognises loans and advances and deposits 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. No assets are classified as held to maturity:

a) Loans and receivables

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (refer 1.3).

When the Society purchases 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 is accounted for as a loan or advance, and the underlying asset is not recognised in the Society's financial statements..

b) Available-for-sale

Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise of debt securities which are measured at fair value after initial recognition.

Interest income is recognised in the income statement using the effective interest method (refer 1.3). Impairment losses are recognised in the income statement.

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

c) At fair value through profit and loss

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

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

These hedging relationships are discussed below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised 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 re-measurement 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 in the income statement using the effective interest method over the remaining life of the hedged item.

Financial liabilities

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

De-recognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers

Notes to the Accounts (continued)

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

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

a) Funding for Lending Scheme

Mortgage Assets are pledged as collateral to access the scheme. Where the risk reward relationship of these assets remains with the Society they are retained on the statement of financial position. The carrying amount of assets pledged as collateral which the Society continues to recognise are included within the total of assets prepositioned at the Bank of England detailed at note 14.

b) Sale and Repurchase Agreements

Treasury Bills are pledged as collateral as part of bi-lateral sale and repurchase agreements with market counterparties. Where the risk reward relationship of these assets remains with the Society they are retained on the statement of financial position. The carrying amount of assets pledged as collateral which the Society continues to recognise are detailed at note 12 as appropriate.

Measurement

a) Amortised Cost Measurement

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

b) Fair Value Measurement

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

When available, the 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 is ‘impaired’ when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- breach of contract or terms;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise, including forbearance granted to the borrower or issuer;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security;
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuer in the Society, or economic conditions that correlate with defaults in the Society; or

- Any other information discovered during regular review suggesting a risk of loss in the short to medium term.

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

In assessing collective impairment, the Society uses relevant peer group experience for comparable groups of assets due to the lack of a material amount of historical trends of 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 peer group experience. 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. In considering expected future cashflow, account is taken of any discount required against the value of the security at the statement of financial position date thought necessary to achieve as sale, anticipated foreclosure timing, anticipated realisation costs and amounts recoverable under mortgage indemnity policies.

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:

- a reduced monthly payment;
- an arrangement to clear outstanding arrears;
- extension of the 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, bank statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted this will normally be for an initial period of three months, with extension as required for further three month periods normally not exceeding twelve months in total, during which the account is monitored in accordance with our policy and procedures to assess the risk to the Society and the suitability of the arrangement for the customer. 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.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of six months of qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated for a period of six months following the change.

Impairment losses are recognised in the income statement 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 the income statement.

1.8 Cash and cash equivalents

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

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

1.9 Tangible fixed assets

Tangible fixed assets are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort. The Society capitalises the cost of additions, major alterations to and refurbishments of office premises and equipment as land and buildings.

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

All leases are classified as operating leases, the Society having no leases in which the Society assumes substantially all the risks and rewards of ownership of the leased asset which would be classified as finance leases.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the income statement 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 (freehold and leasehold) – Between 20 and 50 years
- refurbishment of buildings and roofs – Between 10 and 20 years
- plant and equipment, fixtures and fittings – between 3 and 10 years

Notes to the Accounts (continued)

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.

1.10 Intangible assets

Computer software

Purchased software is capitalised as an intangible asset where the software is an identifiable asset controlled by the Society which will generate future economic benefits. Other costs relating to internal development of software are recognised as an expense as incurred.

Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software – 3 to 5 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.

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

1.11 Impairment excluding financial assets and deferred tax assets

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if 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.

1.12 Employee benefits

Defined contribution plans and other long term employee benefits

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.

The Society makes contributions to a Group Personal Pension Scheme through a life insurance company. The scheme is independent of the finances of the Society.

Obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Society has an Employer Financed Retirement Benefit Scheme. This represents a retirement benefit obligation to certain pensioners outside the scope of the Society defined contribution plan. The obligation is funded by the Society and has no scheme assets.

All obligations are in payment and the amount and escalation in benefit cannot change. The Society's net obligation in respect of defined benefit plans is calculated by estimating the amount of future payments due; that benefit is discounted to determine its present value. The entity determines the net interest expense on the net defined benefit liability for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability taking account of changes arising as a result of benefit payments.

The discount rate is the yield at the balance sheet date 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 annually by the directors using the details of 'in payment' obligations and escalation terms and the latest discount rate and bi-annual mortality assumptions.

Changes in the net defined benefit liability, the net interest on the net defined benefit liability, and the costs of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the income statement.

Re-measurement of the net defined benefit liability is recognised in Other comprehensive income in the period in which it occurs.

1.13 Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the entity 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.

Contingent liabilities are potential obligations from past events which shall be confirmed by future events. Contingent liabilities are not recognised in the statement of financial position.

1.14 Accounting estimates and judgements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 are set out below:

- EIR – The Society determines the effective life of mortgages through analysis of historical data with a qualitative management overlay. The effective life is monitored during the year to ensure assumptions remain reasonable with adjustments applied as appropriate. Any variation in the expected life would change the carrying value in the statement of financial position and the timing of recognition of interest income. A one month increase in life profile of mortgage assets would increase the value of loans on the statement of financial position by £49,289 (2015: £110,875).
- Loan Loss Impairment Provisions – The Society reviews the portfolio of mortgages regularly during the year to assess for impairment. Impairment provisions are calculated using peer group experience as outlined in note 1.7 above. The accuracy of the provision is dependent on the assumptions regarding probability of default. A 10% relative variation in the assumption regarding probability of default would increase the impairment provision on loans and advances by £68,188 (2015: £68,795).
- Fair Value of Financial Instruments – Derivative financial instruments are calculated by projecting expected future principal and interest cash flows, discounted using the prevailing LIBOR curve. The LIBOR yield curve is observable market data which is derived from quoted interest rates in similar time bandings which match the timings of cash flows and maturities of the instruments. At the year end, a parallel increase of 50bps in the LIBOR curve would change the net fair value of derivative financial instruments and related hedged items where appropriate by £4,132 (2015: £16,541).
- Defined benefit obligations: key actuarial assumptions – The Society has a retirement benefit obligation to certain pensioners outside the scope of the Society defined contribution plan. The obligation is funded by the Society and has no scheme assets. All obligations are in payment and the amount and escalation in benefit cannot change. The Society's net obligation in respect of defined benefit plans is calculated by estimating the present value of future payments due. The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the entity's obligations. A 50bps decrease in the discount rate will increase the obligation by £42,294 (2015: £38,124) at the year end.

Notes to the Accounts (continued)

2 Interest receivable and similar income

	2016	2015
	£000	£000
On loans fully secured on residential property	10,126	10,065
On other loans	204	223
On liquid assets	215	395
Other income	73	43
Net interest (expense) on derivatives	(736)	(872)
	9,882	9,854

Included within interest other income is income from available-for-sale assets of the Society in the form of Treasury Bills of £73,000 (2015: £43,000)

Included within interest income is £47,000 (2015: £41,000) in respect of interest income accrued on impaired loans two or more months in arrears.

3 Interest payable and similar charges

	2016	2015
	£000	£000
On shares held by individuals	3,454	3,797
On deposits and other borrowings	428	502
	3,882	4,299

4 Net gains/losses on derivative financial instruments

	2016	2015
	£000	£000
Derivatives in designated fair value hedge relationships	508	648
Adjustments to hedged items in fair value hedge relationships	(523)	(658)
Derivatives not in designated fair value hedge relationships	127	145
	112	135

Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedge relationships or fair value movements on derivatives where hedge accounting is not achievable. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged items or fair value movements on derivatives not designated for hedge accounting. This gain or loss will trend to zero over time.

5 Administrative expenses

	2016	2015
	£000	£000
Wages and salaries	2,128	1,996
Social security costs	219	205
Contributions to defined contribution plans	389	366
Expenses relating to defined benefit plans	28	28
	2,764	2,595
Other administrative expenses	2,212	2,085
	4,976	4,680

The remuneration of the external auditor, which is included within legal, professional and consultancy costs above, is set out below (excluding VAT):

	2016	2015
	£000	£000
Audit of these annual accounts	63	78
Amounts received by the Society's auditor and its associates in respect of:		
Taxation compliance services	-	7
Other advisory services	41	39
	104	124

6 Employee numbers

	2016	2015
	£000	£000
Full Time	65	63
Part Time	18	18
	83	81
Principal office	49	49
Branch offices	34	32
	83	81

7 Directors' remuneration

Directors' emoluments are set out within the Directors' Remuneration Report.

Total Directors' emoluments for the year amounted to £533,923 (2015: £520,144).

8 Directors loans and transactions

As at 31 December 2016, there were outstanding mortgage loans granted in the ordinary course of business to two Directors (2015: two) and no connected persons (2015: none), amounting in aggregate to £502,080 (2015: £527,273).

A register is maintained by the Society containing details of loans, transactions and agreements made between the Society and the Directors and their connected persons. A register of loans to Directors and connected persons is maintained under Section 68 of the Building Societies Act 1986 at the Principal Office of the Society. This is available for inspection during normal office hours over the period of 15 days prior to the Society's Annual General Meeting and at the Annual General Meeting.

Notes to the Accounts (continued)

9 Taxation

	2016	2015
	£000	£000
Current tax		
Current tax on income for the period	249	257
Adjustments in respect of prior periods	(70)	11
Total current tax	179	268
Deferred tax (refer note 23)		
Origination and reversal of timing differences	(25)	(36)
Adjustment in respect of previous periods	76	-
Change in tax rate	4	(10)
Total Deferred tax	55	(46)
Total tax	234	222

	Current tax	Deferred tax	Total
	2016	2016	2016
	£000	£000	£000
Recognised in the Income Statement	183	67	250
Recognised in Other Comprehensive Income	(4)	(12)	(16)
Total tax	179	55	234

	Current tax	Deferred tax	Total
	2015	2015	2015
	£000	£000	£000
Recognised in the Income Statement	279	(72)	207
Recognised in Other Comprehensive Income	(11)	26	15
Total tax	268	(46)	222

Analysis of current tax payable in the income statement	2016	2015
	£000	£000
Corporation tax	179	268
Total current tax		

Reconciliation of effective tax rate	2016	2015
	£000	£000
Profit for the year	1,279	1,122
Total tax expense	250	207
Profit excluding taxation		
Tax using the UK corporation tax rate of 20.00%(2015: 20.25%)	256	227
Expenses not deductible for corporation tax purposes	(16)	(45)
Effect of change in tax rate	-	14
Effect of change in tax rate on deferred tax	4	-
UK tax not at standard rate	-	-
(Over)/under provision of tax in prior years	6	11
Total tax charge in the income statement	250	207

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Society's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated on these rates.

10 Cash and cash equivalents

	2016	2015
	£000	£000
Cash in hand	440	524
Loans and advances to credit institutions (refer note 11)	55,969	68,064
Cash and cash equivalents per the cash flow statements	56,409	68,588

11 Loans and advances to credit institutions

	2016	2015
	£000	£000
Repayable on demand		
Balances with the Bank of England	47,005	58,518
Loans and advances to credit institutions	8,964	7,530
	55,969	66,048
In not more than three months		
Loans and advances to credit institutions	-	2,016
In not more than one year		
Loans and advances to credit institutions	-	4,003
Total loans and advances to credit institutions	55,969	72,067
Total included within cash equivalents	55,969	68,064

Notes to the Accounts (continued)

12 Debt securities

	2016	2015
	£000	£000
Treasury bills	10,760	21,276
	10,760	21,276
Debt securities have remaining maturities as follows		
In not more than one year	10,760	21,276
	10,760	21,276

Of this total £nil (2015: £nil) is attributable to fixed income debt securities.

Movements in debt securities during the year are summarised as follows:

	2016	2015
	£000	£000
At 1 January	21,276	1,998
Additions	24,722	35,241
Disposals and maturities	(35,236)	(15,964)
Net gains/(losses) from changes in Fair Value recognised in OCI	(2)	1
At 31 December	10,760	21,276

13 Derivative financial instruments

	Notional Principal	Fair Values Assets	Fair Values Liabilities
	2016	2016	2016
	£000	£000	£000
Derivatives designated as fair value hedges			
Interest rate swaps	12,000	-	249
Total derivatives designated as fair value hedges	12,000	-	249
Derivatives not designated in hedge relationships			
Interest rate swaps	3,000	-	136
Total derivatives not designated as fair value hedges	3,000	-	136

	Notional Principal	Fair Values Assets	Fair Values Liabilities
	2015	2015	2015
	£000	£000	£000
Derivatives designated as fair value hedges			
Interest rate swaps	14,300	-	765
Total derivatives designated as fair value hedges	14,300	-	765
Derivatives not designated in hedge relationships			
Interest rate swaps	4,000	-	262
Total derivatives not designated as fair value hedges	4,000	-	262

14 Loans and advances to customers

	2016	2015
	£000	£000
Loans fully secured on residential property	342,217	301,928
Loans fully secured on land	3,815	4,269
Fair value adjustment for hedged risk	197	720
	346,229	306,917
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	3,197	3,179
In more than three months but not more than one year	8,697	8,638
In more than one year but not more than five years	53,747	51,189
In more than five years	281,644	244,263
	347,285	307,269
Less allowance for impairment (refer note 15)	(1,056)	(1,072)
	346,229	306,197

The maturity analysis above is based on contractual maturity not behavioural or expected maturity.
At 31 December 2016 £44.8m (2015: £69.0m) of mortgage assets were prepositioned with the Bank of England, including assets which are both encumbered and unencumbered.

15 Allowance for impairment

	Loans fully secured on residential property	Loans fully secured on Land	Total
	2016	2016	2016
	£000	£000	£000
At 1 January 2016			
Individual impairment	25	634	659
Collective Impairment	392	21	413
	417	655	1,072
Amounts written off during the year, net of recoveries			
Individual impairment	-	-	-
Collective Impairment	-	-	-
	-	-	-
Income statement			
Impairment losses on loans and advances			
Individual impairment	1	(71)	(70)
Collective Impairment	60	(5)	55
	61	(76)	(15)
Income statement			
Adjustment to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	(1)	-	(1)
Collective Impairment	-	-	-
Charge for the year	(1)	-	(1)
At 31 December 2016			
Individual impairment	25	563	588
Collective Impairment	452	16	468
	477	579	1,056

Notes to the Accounts (continued)

	Loans fully secured on residential property 2015 £000	Loans fully secured on Land 2015 £000	Total 2015 £000
At 1 January 2015			
Individual impairment	31	694	725
Collective Impairment	332	21	353
	363	715	1,078
Amounts written off during the year, net of recoveries			
Individual impairment	-	-	-
Collective Impairment	-	-	-
	-	-	-
Income statement			
Impairment losses on loans and advances			
Individual impairment	(6)	(60)	(66)
Collective Impairment	60	-	60
	54	(60)	(6)
Income statement			
Adjustment to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	-	-	-
Collective Impairment	-	-	-
Charge for the year	-	-	-
At 31 December 2015			
Individual impairment	25	634	659
Collective Impairment	392	21	413
	417	655	1,072

16 Tangible fixed assets

	Land and buildings	Equipment-fixtures fittings and vehicles	Total
	2016	2016	2016
	£000	£000	£000
Cost			
Balance at 1 January 2016	1,749	1,632	3,381
Acquisitions	-	230	230
Disposals	(518)	(32)	(550)
Balance at 31 December 2016	1,231	1,830	3,061
Depreciation and impairment			
Balance at 1 January 2016	477	883	1,360
Depreciation charge for the year	31	206	237
On disposals	(170)	(23)	(193)
Balance at 31 December 2016	338	1,066	1,404
Net book value			
Balance at 1 January 2016	1,272	749	2,021
Balance at 31 December 2016	893	764	1,657

The Society's freehold and long leasehold land and buildings were revalued during July 1999. Other tangible fixed assets are included at cost.

	2016	2015
	£000	£000
The net book value of land and buildings comprises:		
Freehold	893	1,272
	893	1,272

The above land and buildings are occupied for own use

Notes to the Accounts (continued)

17 Intangible assets

	Purchased Software
	2016
	£000
Cost	
Balance at 1 January 2016	734
Acquisitions	83
Written off in the year	(98)
Balance at 31 December 2016	719
Amortisation	
Balance at 1 January 2016	551
Depreciation charge for the year	75
Written off in the year	(74)
Balance at 31 December 2016	552
Net book value	
Balance at 1 January 2016	183
Balance at 31 December 2016	167

Intangible assets are included at cost.

18 Other debtors

	2016	2015
	£000	£000
Other debtors	295	31
Deferred tax assets (refer note 23)	210	237
Prepayments and accrued income	277	261
	782	529

19 Shares

	2016	2015
	£000	£000
Held by individuals	344,383	332,152
Other shares	227	300
	344,610	332,452

Shares are repayable with remaining maturities from the date of the reporting as follows:

Accrued Interest	1,847	2,138
On demand	161,736	175,958
In not more than three months	81,792	59,557
In more than three months but not more than one year	81,224	76,877
In more than one year but not more than five years	18,011	17,922
	344,610	332,452

20 Amounts owed to credit institutions

	2016	2015
	£000	£000
Amounts owed to credit institutions are repayable from the date of the statement of financial position as follows:		
Accrued Interest	141	143
In not more than three months	4,986	2,974
In more than three months but not more than one year	15,919	7,943
In more than one year but not more than five years	-	5,932
	21,046	16,992

Included in the amounts above is £7.9m (2015: £11.8m) relating to sale and repurchase agreement for treasury bills borrowed from the Bank of England under the Funding for Lending Scheme (FLS).

21 Amounts owed to other customers

	2016	2015
	£000	£000
Amounts owed to other customers are repayable from the date of the statement of financial position as follows:		
Accrued Interest	30	58
On demand	2,053	3,200
In not more than three months	2,227	4,362
In more than three months but not more than one year	6,317	8,601
In more than one year but not more than five years	1,561	-
	12,188	16,221

22 Other liabilities

	2016	2015
	£000	£000
Income tax	-	17
Corporation tax	215	257
Payments to insurance companies	-	54
Other creditors	240	257
	455	585

Notes to the Accounts (continued)

23 Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	-	-	123	94	(123)	(94)
FRS 102 transitional adjustment	210	97	-	-	210	97
Employee benefits	-	140	-	-	-	140
Unused tax losses	-	-	-	-	-	-
Other	-	-	25	26	(25)	(26)
	210	237	148	120	62	117

The majority of deferred tax assets and liabilities are anticipated to be recoverable after one year.

24 Provisions

	2016	2016	2016	2015	2015	2015
	FSCS	Other	Total	FSCS	Other	Total
	£000	£000	£000	£000	£000	£000
At 1 January	112	25	137	110	50	160
Charge for the year	87	-	87	210	-	210
Provision utilised	(95)	(6)	(101)	(208)	(25)	(233)
At 31 December	104	19	123	112	25	137

Financial Services Compensation Scheme (FSCS)

The Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be predominantly repaid from the realisation of the assets of the failed institutions, however a shortfall may occur. The FSCS covers this shortfall through charging financial institutions a levy over a three year period which began in 2013/14. In addition, the FSCS raises levies against financial institutions to cover the interest cost of the borrowings from the UK government and charges ongoing management expenses as part of this Levy.

As the ongoing management expenses and interest costs are subject to change, and the Society is potentially exposed to future levies from further capital losses, the Society's ultimate FSCS contribution is uncertain.

Following payment of the 2015/16 scheme year Management Expense Levy in August 2016, the £104,000 provision at the year end relates to our share of the estimated Management Expense Levy for scheme year 2016/17 that will be invoiced in August 2017. The Society's provision does not include management expense levies for any further scheme years, or compensation levies which may arise from any ultimate payout on future claims made under the scheme. The provision is anticipated to be utilised in less than one year.

Others

Other provisions have been made in respect of regulatory compensation for customer redress relating to two specific matters.

Past sale of payment protection insurance in connection with mortgages

The provision was established in response to claims in relation to previous sales of mortgage payment protection insurance. A provision of £23,000 was brought forward at 1 January (2015: £25,000). During the year £5,000 (2015: £2,000) of the provision was utilised for this purpose with a recovery of provisioning of nil (2015: £nil) to leave a provision of £18,000 (2015: £25,000) at the reporting date.

Non-adherence to disclosure requirements under the Consumer Credit Act 1974

Past non adherence to disclosure requirements has resulted in the Society having to refund interest to customers for the period between when disclosures should have been made and the date the non-disclosure issue was remedied. A provision of £2,000 (2015: £25,000) was brought forward at 1 January. During the year £1,000 (2015: £23,000) of the provision was utilised for this purpose with no additional provisioning (2015: £nil) to leave a provision of £1,000 (2015: £2,000) at the reporting date.

25 Employee benefits

Defined benefit scheme

Net pension liability

The Society has an Employer Financed Retirement Benefit Scheme. This represents a retirement benefit obligation to certain pensioners. All obligations are in payment with the obligation funded from the financial resources of the Society, the scheme having no distinct assets independent of the Society. The information disclosed below relates to this scheme alone.

	2016
	£000
Defined benefit obligation	849
Net pension liability	849

Movement in present value of defined benefit obligation

	2016
	£000
At 1 January	780
Interest expense	28
Re-measurement: actuarial gains/(losses)	89
Benefits paid	(48)
At 31 December	849

Principal actuarial assumptions

	2016	2015
	%	%
Discount rate	2.62	3.68
Future pension increases	2.85	2.85

The obligation is measured internally by the Directors on at least an annual basis using the following inputs:

- AA Sterling Corporate Non-financial Bond Index for the closest approximation of the average duration of obligation, currently iBoxx +15yrs
- ONS Cohort Life Expectancy Tables – England and Wales (Higher Life Expectancy Variant), the statistics being updated on a bi-annual basis
- Rate of future pension increases provided for under the terms of the agreement

Defined contribution scheme

The Society contributes to a defined contribution group personal pension scheme which is open to contracted employees over eighteen years of age. The Scheme is funded separately through a life assurance company and the funding is independent of the Society's finances. The Society's contributions are charged against profits in the year in which they are made.

Total expense relating to this plan in the current year was £389,000 (2015: £366,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes to the Accounts (continued)

26 Financial Instruments

AA financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society uses financial instruments to invest liquid asset balances and raise wholesale funding. The Society also uses derivative financial instruments (derivatives) to manage the risks arising from its operations. The Society uses derivatives for economic hedging purposes only in accordance with the Building Societies Act 1986 to limit the extent to which the Society will be affected by changes in interest rates. The Society does not run a trading book.

Where an on balance sheet hedge cannot be achieved the principal derivatives used are interest rate swaps. These instruments are used to hedge exposures arising from underlying business activities in the form of fixed rate mortgage lending, fixed rate savings products and fixed rate deposit funding. The duration of the off balance sheet contracts and the maturity profile reflect the nature of the exposures arising from the underlying business activities being hedged.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.7 ‘Financial instruments’ describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society’s assets and liabilities by financial classification:

Carrying values by	Measured at amortised cost		Measured at fair value			
category at 31 December 2016	Loans and Receivables	Financial assets and liabilities at amortised cost	Available for sale	Derivatives designated as fair value hedges	Unmatched Derivatives	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash in hand	-	440	-	-	-	440
Loans and advances to credit institutions	55,969	-	-	-	-	55,969
Debt Securities	-	-	10,760	-	-	10,760
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to customers	346,229	-	-	-	-	346,229
Other assets	-	2,606	-	-	-	2,606
Total assets	402,198	3,046	10,760	-	-	416,004
Liabilities						
Shares	-	344,610	-	-	-	344,610
Amounts owed to credit institutions	-	21,046	-	-	-	21,046
Amounts owed to other customers	-	12,188	-	-	-	12,188
Derivative financial instruments	-	-	-	249	136	385
Non financial liabilities	-	37,775	-	-	-	37,775
Total liabilities	-	415,619	-	249	136	416,004

Carrying values by category at 31 December 2015	Measured at amortised cost		Measured at fair value			
	Loans and Receivables	Financial assets and liabilities at amortised cost	Available for sale	Derivatives designated as fair value hedges	Unmatched Derivatives	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash in hand	-	524	-	-	-	524
Loans and advances to credit institutions	72,067	-	-	-	-	72,067
Debt Securities	-	-	21,276	-	-	21,276
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to customers	306,917	-	-	-	-	306,917
Other assets	-	2,733	-	-	-	2,733
Total assets	378,984	3,257	21,276	-	-	403,517
Liabilities						
Shares	-	332,452	-	-	-	332,452
Amounts owed to credit institutions	-	16,992	-	-	-	16,992
Amounts owed to other customers	-	16,221	-	-	-	16,221
Derivative financial instruments	-	-	-	765	262	1,027
Non financial liabilities	-	36,823	2	-	-	36,825
Total liabilities	-	402,488	2	765	262	403,517

At the year end, the Society had loan commitments of £13.3m (2015: £11.1m) measured at cost.

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 unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Notes to the Accounts (continued)

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

	Note	Level 1	Level 2	Level 3	Total
		£000	£000	£000	£000
At 31 December 2016					
Financial assets					
Available for sale		-	-	-	-
Debt Securities	13	10,760	-	-	10,760
		10,760	-	-	10,760
Financial liabilities					
Derivative financial instruments		-	-	-	-
Interest Rate SWAPs	14	-	385	-	385
		-	385	-	385
At 31 December 2015					
Financial assets					
Available for sale		-	-	-	-
Debt Securities	13	21,276	-	-	21,276
		21,276	-	-	21,276
Financial liabilities					
Derivative financial instruments		-	-	-	-
Interest Rate SWAPs	14	-	1,027	-	1,027
		-	1,027	-	1,027

Credit Risk

'Credit risk' is the risk that a borrower or counterparty of the Society will cause a financial loss for the Society by failing to discharge an obligation.

The Society is exposed to credit risk from its lending to:

- Individual customers (mortgages on residential and commercial property)
- Companies (mortgages to corporates secured on residential and commercial property)
- Wholesale counterparties (investment of liquid assets and derivative financial instruments)

Credit risk arising from mortgage lending to individuals and companies is managed within a framework to ensure risk is underwritten and managed within the risk appetite set by the Board. This involves the use of risk adjusted pricing models, mandates, exposure limits and stress testing and is subject to monitoring by the Board Risk Committee.

Credit risk arising from investment of liquid assets and entering into derivative financial instruments is managed within a framework to ensure risk exposure is managed within the risk appetite set by the Board. This involves use of strict mandates and both counterparty risk assessment and monitoring.

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

.

	2016	2015
	£000	£000
Cash in hand	440	524
Loans and advances to credit institutions	55,969	72,067
Debt securities	10,760	21,274
Loans and advances to customers	346,229	306,197
Total statement of financial position exposure	413,398	400,062
Off balance sheet exposure: Mortgage Commitments	13,274	11,093
	426,672	411,155

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on page 54. The Society does not use credit derivatives, or similar instruments, to manage its credit risk.

Credit Risk – Loans and advances to customers

Mortgages secured on Residential Property

The Society currently lends in the prime residential mortgage market, including buy to let.

The table below outlines the mix of loans secured on residential property at the reporting date.

Lending Analysis	2016		2015	
	£000	%	£000	%
Residential				
Owner Occupied	258,181	75.41	244,080	80.81
Buy to Let	84,168	24.59	57,974	19.19
	342,349	100.00	302,054	100.00
Impairment and EIR adjustments	(132)		(126)	
Total net exposure	342,217		301,928	

The Society have a diverse exposure to loans secured on residential property across the United Kingdom.

The table below outlines the geographical spread of exposures at the reporting date.

Geographical Analysis	2016		2015	
	£000	%	£000	%
North	18,908	5.52	18,462	6.11
Yorkshire & Humberside	34,101	9.96	29,334	9.71
North West	67,576	19.74	68,385	22.64
East Midlands	26,521	7.75	27,796	9.20
West Midlands	26,410	7.71	25,747	8.52
East Anglia	11,884	3.47	11,917	3.95
South West	34,164	9.98	28,539	9.45
South East	71,434	20.87	60,912	20.17
Greater London	36,187	10.57	16,825	5.57
Wales	15,164	4.43	14,136	4.68
Scotland	-	-	1	-
	342,349	100.00	302,054	100.00

Notes to the Accounts (continued)

The table below outlines the indexed loan to value of exposures.

Indexed Loan to Value Analysis	2016		2015	
	£000	%	£000	%
<=50%	101,195	29.56	71,077	23.53
>50% <=70%	148,800	43.46	133,735	44.28
>70% <=80%	64,102	18.72	69,604	23.04
>80% <=90%	27,134	7.93	24,700	8.18
>90% <=100%	1,118	0.33	2,938	0.97
	342,349	100.00	302,054	100.00

In respect of residential property collateral values are adjusted quarterly according to the Halifax Regional Historic House Price Index (non-seasonally adjusted) produced by Lloyds Banking Group to derive the indexed valuation at the reporting date. At the reporting date the average indexed loan to value of residential property was 41.7% (2015: 44.1%)

The table below provides by payment due status.

Indexed Loan to Value Analysis by Payment Due Status	2016		2015	
	£000	%	£000	%
Neither past due nor individually impaired	341,016	99.61	300,716	99.56
Past due but not impaired	1,110	0.32	1,116	0.37
<=70%	1,110	0.32	1,000	0.33
>70%	-	-	116	0.04
In possession	-	-	-	-
Impaired	223	0.07	222	0.07
<=70%	-	-	-	-
>70%	223	0.07	222	0.07
In possession	-	-	-	-
	342,349	100.00%	302,054	100.00

Mortgages secured on Commercial Property

The Society no longer provides new loans secured on commercial property.

An analysis of the type of loans secured by commercial property is outlined below.

Lending Analysis	2016		2015	
	£000	%	£000	%
Commercial				
Owner Occupied	1,497	34.07	1,648	33.47
Investment	2,897	65.93	3,276	66.53
	4,394	100.00	4,924	100.00
Impairment and EIR adjustments	(579)		(655)	
Total net exposure	3,815		4,269	

The table below outlines the geographical spread of exposures at the reporting date.

Geographical Analysis	2016		2015	
	£000	%	£000	%
North	626	14.25	743	15.09
Yorkshire & Humberside	320	7.28	320	6.50
North West	3,448	78.47	3,861	78.41
	4,394	100.00	4,924	100.00

The table below outlines the loan to value of exposures.

Indexed Loan to Value Analysis	2016		2015	
	£000	%	£000	%
<=50%	1,323	30.11	1,303	26.46
>50% <=70%	904	20.57	779	15.82
>70% <=80%	1,739	39.58	516	10.48
>80% <=90%	-	-	1,860	37.77
>90% <=100%	-	-	-	-
>100%	428	9.74	466	9.47
	4,394	100.00	4,924	100.00

In respect of commercial property the loan to value reflects the latest valuation on file.
The table below provides by payment due status.

Indexed Loan to Value Analysis by Payment Due Status	2016		2015	
	£000	%	£000	%
Neither past due nor individually impaired	1,643	37.39	1,997	40.56
Past due but not impaired	-	-	-	-
<=70%	-	-	-	-
>70%	-	-	-	-
In possession	-	-	-	-
Impaired	2,751	62.61	2,927	59.44
<=70%	584	13.29	405	8.22
>70%	2,167	49.32	2,522	51.22
In possession	-	-	-	-
	4,394	100.00	4,924	100.00

Notes to the Accounts (continued)

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2016				2015			
	Loans fully secured on residential property		Loans fully secured on land		Loans fully secured on residential property		Loans fully secured on land	
	£000	%	£000	%	£000	%	£000	%
Neither past due nor impaired	341,016	99.61%	1,643	37.39%	300,716	99.56	1,997	40.56
Past due but not impaired	1,110	0.32	-	-	1,116	0.37	-	-
Past due less than 2 months but not impaired	935	0.28	-	-	974	0.32	-	-
Past due => 2 but < 3 months	48	0.01	-	-	63	0.02	-	-
Past due => 3 but < 6 months	115	0.03	-	-	74	0.03	-	-
Past due => 6 but < 12 months	12	-	-	-	5	-	-	-
Past due over 12 months	-	-	-	-	-	-	-	-
Possessions	-	-	-	-	-	-	-	-
Impaired	223	0.07	2,751	62.61	222	0.07	2,927	59.44
Not past due	223	0.07	2,142	48.75	222	0.07	2,265	46.00
Past due less than 2 months	-	-	-	-	-	-	-	-
Past due =>2 but <3 months	-	-	609	13.86	-	-	662	13.44
Past due =>3 but <6 months	-	-	-	-	-	-	-	-
Past due =>6 but <12 months	-	-	-	-	-	-	-	-
Past due over 12 months	-	-	-	-	-	-	-	-
Possessions	-	-	-	-	-	-	-	-
	342,349	100.00	4,394	100.00	302,054	100.00	4,924	100.00
Allowance for impairment								
Individual	25		563		25		634	
Collective	452		16		392		21	
Total allowance for impairment	477		579		417		655	
Value of Collateral held	Indexed	Unindexed		Unindexed	Indexed	Unindexed		Unindexed
Neither past due nor impaired	816,049	681,023		4,465	680,533	552,505		5,235
Past due but not impaired	3,894	2,724		-	4,550	2,596		-
Impaired	265	225		3,094	264	225		3,094
	820,208	683,972		7,559	685,347	555,326		8,329

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. Further information is given in accounting policy 1.7 to the accounts.

The collateral consists of residential or commercial property. In respect of residential property collateral values are adjusted quarterly according to the Halifax Regional Historic House Price Index (non-seasonally adjusted) produced by Lloyds Banking Group to derive the indexed valuation at the reporting date. Commercial property reflects the latest valuation on file.

Where the Society holds collateral in excess of the mortgage debt this cannot be used to offset those instances where the outstanding loan exceeds the collateral held. In respect of mortgages secured on residential property, loans past due but not impaired and loans impaired respectively, the amount of collateral, this being the lower of the outstanding balance of the loan or the property, was £1.110m

(2015: £1.116m) and £0.223m (2015: £0.222m). In respect of mortgages secured on commercial property, loans past due but not impaired and loans impaired respectively, the amount of collateral, this being the lower of the outstanding balance of the loan or the property, was £0.000m (2015: £0.000m) and £2.673m (2015: £2.811m).

Mortgage indemnity insurance acts as additional security. It is taken out for all loans in excess of 80% Loan to Value at inception of the mortgage.

The Society's policy is to pursue timely realisation of the collateral in an orderly manner.

Forbearance

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:

- a reduced monthly payment;
- an arrangement to clear outstanding arrears;
- extension of the mortgage term; and
- capitalisation of arrears.

Further information is given in accounting policy 1.7 to the accounts.

	2016				2015			
	Loans fully secured on residential property		Loans fully secured on land		Loans fully secured on residential property		Loans fully secured on land	
	£000	No	£000	No	£000	No	£000	No
Forbearance type								
Reduced monthly payment	272	3	232	1	1,035	16	374	1
Arrangement to clear outstanding arrears	-	-	-	-	-	-	-	-
Extension of the mortgage term	18	1	-	-	96	2	-	-
Capitalisation of arrears	-	-	-	-	-	-	-	-
Of which:								
Amount of individual impairment provisions	-	-	-	-	-	-	-	-

Liquidity Risk

'Liquidity risk' is the risk that the Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at excessive cost.

This is an inherent risk of the Society business model of funding long term mortgages funded by short term retail savings balances. Mortgages are normally on a range of terms between 10 and 35 years but customer behaviour often results in mortgages being repaid in a much shorter period, either on product maturity or sale of the property. Retail savings are either on demand or not available on terms between 1 months and up to 2 years but in practice remain with the Society for periods well in excess of their contractual notice.

The Society manages this risk through continuous forecasting of cashflow requirements and assessment of funding risk. The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Board Risk Appetite. Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances. Compliance with Risk Appetite is monitored by the Board Assets & Liabilities Committee.

Notes to the Accounts (continued)

Maturity analysis for financial assets and liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice as referred to above, contractual maturities are not always reflected in actual experience. Accordingly the actual repayment profile is likely to be significantly different from that shown in the analysis.

At 31 December 2016	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand	440	-	-	-	-	440
Loans and advances to credit institutions	55,969	-	-	-	-	55,969
Debt securities	-	7,762	2,998	-	-	10,760
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to customers	346	2,851	8,229	53,159	281,644	346,229
Total financial assets	56,755	10,613	11,227	53,159	281,644	413,398
Financial liabilities						
Shares	162,298	82,377	81,796	18,139	-	344,610
Amounts owed to credit institutions	-	5,003	16,043	-	-	21,046
Amounts owed to other customers	2,054	2,231	6,336	1,567	-	12,188
Derivative financial instruments	-	149	175	61	-	385
Total financial liabilities	164,352	89,760	104,350	19,767	-	378,229
Net liquidity gap	(107,597)	(79,147)	(93,123)	33,392	281,644	35,169

At 31 December 2015	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand	524	-	-	-	-	524
Loans and advances to credit institutions	66,048	2,016	4,003	-	-	72,067
Debt securities	-	6,994	14,282	-	-	21,276
Derivative financial instruments	-	-	-	-	-	-
Loans and advances to customers	362	2,978	8,598	50,716	244,263	306,917
Total financial assets	66,934	11,988	26,883	50,716	244,263	400,784
Financial liabilities						
Shares	176,833	60,030	77,543	18,046	-	332,452
Amounts owed to credit institutions	-	3,006	8,011	5,975	-	16,992
Amounts owed to other customers	3,206	4,374	8,641	-	-	16,221
Derivative financial instruments	-	212	506	309	-	1,027
Total financial liabilities	180,039	67,622	94,701	24,330	-	366,692

Net liquidity gap	(113,105)	(55,634)	(67,818)	26,386	244,263	34,092

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.

The principal element of Market risk to which the Society is exposed is Interest Rate Risk as a retailer of financial instruments, mainly in the form of mortgage and savings products and the investment of both liquid assets and wholesale borrowing. This risk can arise as a result of actual or market anticipation of changes in general interest rates, changes in the relationship between short and long term interest rates and divergence of rates on different bases across assets and liabilities (basis risk).

The Board has set agreed risk appetite for exposure to each element of Interest Rate Risk. The Society ensures compliance with risk appetite through monitoring interest rate risk exposure by the Board Assets and Liabilities Committee with the following metrics:

- Economic Value — +/-200bps with +/-100bps and 300bps parallel yield curve shift and 4 non parallel shifts in the yield curve
- Earnings — +/-100bps with +/-200bps and 300bps static earnings at risk over a 12m period

In addition to this a range of variations in different interest rate bases outside the control of the Society are stressed, including LIBOR and Bank Rate Exposures. Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances.

The following is an analysis of the Society's sensitivity to an increase or decrease in market rates assuming no non-parallel movement in yield curves, deviation from base behavioural prepayment assumptions and a constant financial position.

	+200bps Parallel Increase	
	2016	2015
	£000	£000
Sensitivity of reported reserves to interest rate movement (economic value)		
At 31 December	(135)	(395)
Average for the period	(261)	(258)
Maximum for the period	(32)	51
Minimum for the period	(567)	(594)

	+100bps Parallel Increase	
	2016	2015
	£000	£000
Sensitivity of reported reserves to interest rate movement (economic value)		
At 31 December	354	223
Average for the period	319	265
Maximum for the period	386	359
Minimum for the period	235	178

Notes to the Accounts (continued)

The Society only deals with products denominated in sterling so is not directly affected by currency risk. Society products are also only interest orientated products so are not exposed to other pricing risks.

Derivatives held for risk management

The Society uses derivatives to assist management of interest rate risk.

Fair value hedges of interest rate risk

The Society uses interest rate swaps to hedge its exposure to changes in fair values of its exposure to market interest rates on fixed rate funding and loans and advances.

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

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Instrument type				
Interest rate swap	-	249	-	765
	-	249	-	765

Capital

The objective of the Board is to maintain a strong capital base to provide protection for members and depositors. The Society is required to manage its capital to meet the requirements of the Capital Requirements Directive (CRD IV) and related requirements set by the Prudential Regulation Authority.

The capital requirements of the Society are planned as part of the Internal Capital Adequacy Assessment Process (ICAAP). As part of the ICAAP process the Board establishes an internal minimum threshold for capital sufficient to support present and future capital requirements, withstand a severe but plausible stress and ensure the minimum regulatory requirement (Individual Capital Guidance) is always met. Compliance with capital requirements is monitored monthly, the results of which are reported to the Board.

The Society complied with and maintained surplus capital requirements above the regulatory minimums during the reporting period.

27 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2015: £nil).

The contractual commitments for the acquisition of intangible assets at the year-end £nil (2015: £nil).

28 Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The purpose of the regulations is to provide clarity on the source of the Society's income and the location of its operations. The annual reporting requirements as at 31 December 2016 are as detailed below:

Name	Marsden Building Society
Nature of activities	Member owned deposit taker, mortgage lender and provider of related products and services
Geographical location	The Society is incorporated, registered and located in the United Kingdom
Turnover	£6.534m
Number of employees	83 of which 65 full time and 18 part time per note 6
Profit before tax	£1.279m
Tax on profit	£0.221m per Cashflow Statement

Public subsidies received	None

1 Statutory percentages

	2016 %	Statutory limit %
Lending Limit		
Proportion of business assets not in the form of loans secured on residential property	1.49	25
Funding Limit		
Proportion of shares and borrowings not in the form of shares held by individuals	8.86	50

The percentages are calculated in accordance with the, and the statutory limits are those prescribed by, Section 6 and 7 of the Building Societies Act 1986 and are based on the Society's balance sheet

Business assets are the total assets of the Society as shown in the balance sheet plus provisions for impairment losses on loans and receivables, less liquid assets, tangible assets and intangible assets as shown in the statement of financial position.

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

Total shares and borrowings are the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers in the statement of financial position.

2 Other percentages

	2016 %	2015 %
As a percentage of shares and borrowings		
Gross capital	9.45	9.51
Free capital	9.10	9.02
Liquid assets	17.78	25.67

As a percentage of mean total assets		
Profit after taxation	0.23	0.23
Management expenses	1.29	1.26
Management expenses net of other income	1.19	1.16

The above figures have been calculated from the Society income statement and statement of financial position

Total shares and borrowings are the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers in the statement of financial position.

Gross Capital is the aggregate of General Reserves and Available for Sale Reserves in the statement of financial positon

Free Capital is gross capital plus collective impairment for losses on loans and advances less tangible and intangible assets in the statement of financial position

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

Liquid assets are the aggregate of Cash in Hand, Loans and Advances to Credit Institutions and Debt Securities in the statement of financial positon

Management expenses are the aggregate of administrative expenses and depreciation taken from the income statement

Annual Business Statement

For the year ended 31 December 2015

Management expenses net of other income are management expenses less fees and commissions receivable, fees and commissions payable and other income in the income statement

3 Information relating to the Directors as at 31 December 2016

Name and Occupation	Date of Birth	Date of Appointment	Other Directorships
R W Barlow BA (Hons) FCA Director & Chairman	4 January 1954	21 May 2001	Bank and Clients Plc University Hospital of South Manchester NHS Foundation Trust Impact Holdings (UK) plc Sapien Partnership Limited
T T Brooke BA (Hons) Director	30 September 1960	1 April 2014	Capita Employee Benefits Limited Exact Mortgage Experts Limited Chartered Mortgages Limited Valiamo Limited Charter Court Financial Services Group Limited Monzo Bank Ltd
I J Bullock BSc (Hons) FIA Director	7 November 1960	1 March 2016	-
A M Hope BSc (Hons) FCA Director	28 February 1957	1 October 2010	1855 Station Building Limited The Rotherham NHS Foundation Trust St Anne's Community Services Eureka! The National Children's Museum
M L Ibbs BA (Hons) Director	12 July 1963	1 April 2014	The Ombudsman Services Limited Blackpool Teaching Hospitals NHS Foundation Trust
R M Pheasey BSc (Hons) Building Society Chief Executive & Director	12 June 1967	22 December 2008	Nelson and Colne College Pendle Education Trust
C A Ritchie BA (Hons) ACA CTA Director	11 January 1959	1 April 2014	Ritchie Consulting (UK) Limited
N Walker BA (Hons) ACIB Building Society Finance Director, Chief Risk Officer and Director	29 November 1970	22 December 2008	-

Documents may be served on the above named directors, either individually or collectively, marked 'Private and Confidential' c/o KPMG LLP, 1 Sovereign Square, Sovereign Street, Leeds, West Yorkshire, LS1 4DA.

There are currently no formal service contracts in existence for Executive Directors at the Society. The employment of Executive Directors can be terminated by either party giving one year's notice with compensation for loss of office being twelve months remuneration. At the balance sheet date no formal service contracts existed for Non-Executive Directors. Each of the Non-Executive Directors were appointed under the Rules for a three year term commencing from the Annual General Meeting at which they were first elected or re-elected unless terminated earlier at the request of the Board, in accordance with the Rules or at the request of the individual concerned.

Contact

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Connect with us

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