2020

Annual Report and Accounts

marsden
BUILDING SOCIETY

Contents

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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.

*Calls will be recorded and may be monitored.

Key Financial Highlights

Key Performance Highlights

- Residential Mortgage Balances up £73.9m (15.7%) to £545.7m
- Gross Residential Mortgage Advances of £152.8m with 1,268 new members joining the Society
- Share balances up £37.7m (7.6%) to £535.8m with 1,158 new members joining the Society
- Total Assets up £63.4m (11.0%) to £638.6m
- Net Interest Margin decreased by 6bps to 1.59%
- Administrative Expenses net of Other Income as a proportion of mean assets down 9bps to 1.19%
- Operating profit before impairment losses and provisions up 16.9% at £2.386m
- Profit after Tax up 2.2% at £1.883m
- Strong Core Tier 1 Solvency Ratio of 19.27%, down 2.06% as a result of growth in mortgage assets
- Society Leverage Ratio of 6.57%, down 0.41% as a result of balance sheet growth

5 Year Financial Highlights

Year ended 31 December	2020	2019	2018	2017	2016
Net Interest Income (£000)	9,661	9,004	8,280	6,977	6,000
Net Interest Margin (%)	1.59%	1.65%	1.68%	1.57%	1.46%
Admin Expenses Net of Other Income (£000)	7,235	6,963	6,111	5,576	4,866
Admin Expenses Net of Other Income (%)	1.19%	1.28%	1.24%	1.25%	1.19%
Operating Profit efore impairment losses and provisions	2,386	2,042	2,205	1,506	1,246
Impairment Losses on Loans and Advances	39	132	79	(83)	16
Profit before Tax	2,343	2,262	2,208	1,440	1,279
Profit after Tax	1,883	1,843	1,761	1,157	1,029
As at 31 December					
Share Balances (£m)	535.8	498.1	433.0	385.7	344.6
Loans to Customers (£m)	545.7	471.8	417.8	380.8	342.4
Gross Residential Advances (£m)	152.8	135.0	122.8	116.6	120.5
Total Assets (£m)	638.6	575.2	514.2	472.8	416.0
Liquidity (£m)	89.5	99.4	92.2	85.9	67.2
Wholesale Funding (£m)	54.0	24.5	34.5	41.8	26.5
Loan to Deposit Ratio (including Reserves)	106.51%	115.11%	113.87%	111.52%	111.81%
Core Tier 1 Solvency	19.27%	21.33%	22.83%	23.61%	25.26%
Leverage Ratio	6.57%	6.98%	7.46%	7.74%	8.51%

Chairman's Statement

In a year of such significance and disruption brought by coronavirus, I wanted to acknowledge the support the Society has provided to its members and to extend my thanks on behalf of the Board for the way in which colleagues in all aspects of the Society's operations have responded to the challenges we have faced.

At the same time, I want to pass on my sincere condolences to those who have suffered through the impact of the pandemic and have lost people dear to them.

We entered 2020 with a confidence and ambition for the year following a successful period of growing your Society and investing in our future. The impact from the pandemic, which started around March, saw a slowing of the business as we sought to re-orientate our focus to the safety of colleagues and members and to the successful transition to remote working for our teams based at Principal Office.

I wanted to specifically acknowledge the retail branch teams, who throughout the pandemic have remained open for the benefit of members, and our members for their understanding as we temporarily moved to reduce the services in line with Government and health advice.

What followed was an unprecedented level of measures from the Government and the Bank of England to stimulate and support the economy, and whilst the Society was resilient to the economic impacts that arose in the year, we are acutely aware of the financial hardship this has brought to many businesses and households.

For our members, we responded to the Government payment deferral scheme and increased our support for borrowers experiencing difficulty. Encouragingly, our own experience has seen a gradual reduction in those needing support and low numbers of borrowers requiring further forbearance. Whilst contrary to our projections of the credit impact that could have arisen in 2020, we are mindful that the fallout is far from over and we stand ready to support borrowers should their circumstances change in the future.

We have prudently set our plans for the pandemic shock to the economy, which for many is still likely to be faced. We had hoped that the health crisis would have eased, far from the reality we are now facing, albeit the spread of the vaccination rollout is currently a real positive.

We expect the economic outlook to be uncertain for some time to come. This will certainly have a bearing on our plans in the coming year, adjusting our lending mix and retail inflow requirements to the prevailing circumstances. For the Society, this means that we continue to invest more time in planning over the short-term horizon whilst recognising that a number of strategic priorities we set will now follow a little later than we planned.

Our results for the year are especially strong when set against the context of the opening statements and the ongoing impact arising from the pandemic. More detail is provided within Rob's Chief Executive's Review, but I wanted to acknowledge the excellent results achieved, which saw growth in our core lending and savings business, improved profitability and a further strengthening of our reserves.

Whilst our immediate focus is on helping our members and colleagues through these uncertain times, we remain committed to growing and strengthening your Society.

We are proud of our mutual heritage and firmly believe that remaining an independent, mutual building society consistently produces the best outcomes for our members and for the communities in which we operate.

Maintaining our careful stewardship of the Society, the Board will continue to ensure we manage our capital and liquidity resources appropriately and support the health and wellbeing of our people as our top priority.

J L Walker
Chairman

5 March 2021

Chief Executive's Review

"Your Society has responded comprehensively to the challenges brought by the coronavirus pandemic and I am extremely proud of the dedication and professionalism from everyone at the Marsden in looking after the interests of our members."

A year categorised by personal and business challenges

Before commenting on our business performance, I wanted to acknowledge the impact brought by coronavirus, for the sadness for many in the loss of loved ones and for the uncertainty that we still face.

The way we operate has been changed by the pandemic, having moved rapidly to new ways of working, supporting colleagues with home working where possible and putting measures in place to continue to operate safely within Covid-secure guidelines. I have always acknowledged the support and dedication of my colleagues, who together with our members are the Marsden. But this year, their commitment has been exceptional. They can be justifiably proud of the way they have responded, and the support they have given to the Society, to our members and just as importantly, to one another. In these challenging times we have seen a real sense of community and togetherness.

At the time of writing, we are once again responding to the latest health advice to adapt our business operations to keep our colleagues and members safe. We are hopeful that the coming year will bring a return to something a little more normal but recognise that this will take time.

2020 was like no other year for the degree of disruption it brought to our everyday lives. Despite this, your Society has delivered a strong business performance, having achieved the key objectives that we set for the business before we were aware of the pandemic. This represents a remarkable achievement and I am extremely proud of my colleagues at the Marsden because of this. What we have achieved is a clear demonstration of the values we hold dear.

From a business perspective, the in-year business performance was strong, with further growth in our mortgage and savings activity. We once again achieved our objective to grow the Society by continuing to attract and retain members through competitive products and excellent service. Our strong financial performance meant that we increased our reserves and maintained our strong capital position whilst supporting investment in infrastructure. Our performance is built on a resilient and simple business model delivering high levels of customer service and good value mortgage and savings products.

In our mortgage business, we grew balances by 15.7% to £545.7m, increasing gross lending ahead of the position we had forecast. This was markedly different to the outturn we had considered earlier in the year, with the impact from the first national lockdown, the temporary withdrawal of valuation services and the uncertainty surrounding house prices and unemployment in the wider economy, which dampened our lending volumes in the second quarter. The second half of the year proved to be an exceptionally busy time, in part, driven by the pent-up demand and the market stimulus brought by the changes to Stamp Duty. The Society, along with many lenders, responded to the Bank of England's request to maintain lending activity. We adjusted our lending mix in response to these circumstances, maintaining our positioning within our core residential and retirement lending markets, together with a return to higher loan to value market segments, whilst maintaining our responsible lending approaches and individual case underwriting to manage the risks to the borrowers and the Society.

Our plans to diversify our lending activity saw the entry to the Shared Ownership market in the later part of the year. We also continued our lending to the residents in Guernsey with loan originations in year increasing, taking our overall lending in Guernsey above £20m.

As you will be aware, the UK left the European Union (EU) on 31 January 2020 but remained part of the European Economic Area (EEA) until 31 December 2020 whilst Brexit negotiations were ongoing. Although a trade deal was reached between the UK Government and the EU, it did not extend to an agreement for 'services', which includes the financial services sector.

In response, the Society took the decision to temporarily suspend new lending to British expats residing in the EEA, as well as making an adjustment to the services offered. We continue to monitor the steps being taken by the UK Government and its intention to put arrangements in place based on the system of equivalence, whereby UK financial institutions can trade, on a regulatory basis, as if they were still in the EU.

We continued to grow our savings business in year by 7.1% (2019: 14.9%), taking total retail savings and deposits with the Society to £539.9m. Although lower than we have seen in previous years, this was in line with our planning assumptions, to reduce our retail inflows and replace with increased drawing under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) which is intended to support lending to households to bridge through the current period of economic disruption caused by the pandemic. In the coming year, we expect to see a substantial return to our retail funding model.

Our commitment to the branches, and to the communities in which we operate, remains as strong as ever. We have maintained our branch operations, adjusting our services in response to the health advice, whilst ensuring that members have access to a branch convenient to them at all times.

Our response to measures designed to support the Covid economy

Both the Government and Bank of England have taken unprecedented steps to support the shock to the economy brought by coronavirus. In March, the Bank of England Monetary Policy Committee announced changes to Bank Rate, reducing by 65 basis points to 0.10%. In response, we sought to adjust rates for our borrowers and savers, seeking to maintain attractive administered rate savings in the context of the general savings market. We also moved to support borrowers seeking to access the payment deferral scheme for up to 6 months and have accessed funding through the TFSME scheme to support our lending activity. Whilst we welcome the support the Government has given firms through the furlough scheme, the Society has not furloughed any colleagues.

Our financial performance

The ongoing pandemic continues to impact the economy and bring disruption to markets. Despite this, the Society has once again delivered a strong financial performance. Through proactive management of both our lending and savings origination volumes, and liquidity and funding requirements plus timing our market entry to achieve the maximum risk adjusted returns, we have closely managed our net interest margin and ability to draw Bank of England funding on four-year terms at Bank Rate.

In 2020, we once again increased our size, taking the balance sheet to £638.6m - an increase of 11.0% or £63.4m which is aligned to our overall strategy to increase scale to support continued investment. Over the last five years, your Society has grown by more than half or £222m and as a consequence, our core tier 1 capital resources relative to risk weighted assets have reduced from 25.26% to 19.27%. This remains a strong capital position, well within the Board risk appetite and in excess of regulatory minimum requirements.

Our profitability has continued to strengthen, in line with planned projections and unaffected by the pandemic. Our profit after tax was stable at £1.883m (2019: £1.843m), continuing the trend of improving profitability over the last 5 years, and we once again increased our reserves. Our net interest income increased as a result of increased lending volumes, despite a dip in our net interest margin to 1.59% (2019: 1.65%). In response to the reduction in bank base rate, we took the difficult decision to adjust our saving and mortgage rates.

The strategic investments we have made in technology over a number of years have been the cornerstone of our strategy to build a strong and resilient business for the future, but have also delivered an immediate operational benefit in supporting the speed of our transition to remote working. A further financial benefit has been the gradual slowing in the level of investment and cost growth which is reflected in our management expense and depreciation, which whilst increasing by £208k or 2.8% in year, are significantly lower than the pace of growth in the prior year (2019: £895k or 13.8%). Most notably, this reduction in programme spend is in line with our strategic investment plans, and again for 2021 we see this trend continuing whilst maintaining our focus on increasing digitalisation across our business to ensure we meet the needs of our members now, and in the future.

Equally important has been our focus on cost efficiency, being accountable for how we spend our members' money. During the year our administrative expense ratio net of other income to mean assets reduced to 1.19% (2019: 1.28%).

Our members

We work hard to offer our savers the best rates we can afford and in year we were faced with the difficult decision to reduce our savings rates in response to the cut in the Bank Rate. Despite these changes, the increase we have seen in our savings balances reflects the determination of many to improve their financial resilience by increasing their personal savings. We maintained access to our branches throughout the year and widened the use of our digital channel and electronic payments to support more of our members.

For some, the economic impacts from the pandemic had an impact on household finances with concerns for many around furlough and unemployment. Like other providers, we introduced mortgage payment deferrals, which, in total, saw 265 mortgage holders making use of this service. By the end of the year, just 21 payment deferrals remained in operation, and the number of members falling into arrears has increased modestly to 0.26% (2019: 0.12%) of the loan base, a small increase on low volumes.

For the Society, lending responsibly to support home ownership is central to our purpose. Our total gross lending increased to £152.8m (2019: £135.0m) with increased support for those looking to enter the purchase market.

Looking ahead, we do see the need for continued support for our members as family finances come under strain following the removal of the Government support schemes. We have invested in our mortgage teams to enable the Society to support an increased number of borrowers should their circumstances change.

Our people

I am extremely proud of the dedication and professionalism from everyone at the Marsden in looking after the interests of our members. Our vision of "working together to build a better future and leave a lasting impression" has always underpinned our service to members, one that is especially significant in the current environment.

Our people are our greatest asset and we have worked tirelessly to support those who serve you, with a widening of our Colleague Engagement programme to support our colleagues during these challenging times. In the recent 2020 colleague survey, 91% said that working at the Marsden supports their wellbeing; 96% would recommend the Marsden as a place to work.

The outlook

We expect the challenges surrounding economic recovery and the pandemic to be part of our plans for many years to come, but whatever the future holds, we will be here for our colleagues and for our members.

We have set a clear purpose to provide a trusted home for our members' money, support their financial wellbeing and help them reach their financial goals in life. Our financial strength and careful management of the Society means we will continue to be there for our members through the financial challenges that may lie ahead.

In facing this future together, we do so with strong capital and liquidity resources and with a determined and talented team.

R M Pheasey
Chief Executive

5 March 2021

Chief Executive's Review (continued)

Customer Experience

Our approach is simple... "to do the basics brilliantly", delivering our highly personal and quality service every time we engage with our members and our partners.

Our success this year

- We extended our access to online services for branch customers as an example of the changes brought by the pandemic.
- We supported our savers with remote account opening and electronic payments via our branch service teams.
- We launched our Care Programme to better support our older borrowers should their circumstances change.

Our plans for the future

- Our digital roadmap sees platform upgrades to both the Marsden eSavings platform and Online Intermediaries.
- Our ongoing programme to simplify our operations for members will see further digital integrations for our members and mortgage intermediaries.
- We will introduce video calls for members across sales, retention and support functions.
- We are investing in our customer journeys to make it easier to do business with the Society.

People

"Our people define our brand"... It's our colleagues that make the Marsden what it is today, whether in branch, over the phone or supporting the business in specialist areas. We have invested to make the Marsden a great place to work. Our numbers are growing and with it the chance to embrace new skills and provide new opportunities.

Our success this year

- Colleague engagement has been a significant part of our delivery in year as we have prioritised the support we provide to colleagues throughout the pandemic.
- We continued to welcome new colleagues to the Marsden team.
- None of our colleagues were furloughed during the year.

Our plans for the future

- In 2021, we will move to Best Companies, an external culture and engagement platform, to build our understanding and awareness around our people.
- The pandemic has changed how we operate and in the coming year we will set our plans for more permanent flexible working arrangements.

Technology

In a world of increased technology adoption and public concerns surrounding cyber security, your Society continues to invest to keep pace with these developments. We want customers to have increased levels of access to the Society digitally, using technology to ensure we remain efficient and operationally resilient.

Our success this year

- In year we were able to support all our colleagues based at our Principal Office to work from home.
- Member registrations to our digital 'OMNI' service increased in year.

Our plans for the future

- We have added to our digital roadmap to evaluate the requirement for mobile services.
- We will migrate to new telephony for improved resilience and to better support customers and colleagues in their contact with the Society.

Products

Rewarding our members through better value products by offering better rates for savers and borrowers. We continue to innovate new products and services and build partnerships across the financial services sector to provide the type of solutions demanded by members.

Our success this year

- We moved to a new home insurance panel provider through Uinsure during the year for new enquiries.
- Supporting our purpose surrounding home ownership, we entered the Shared Ownership mortgage market and extended our support for those with a smaller deposit.

Our plans for the future

- In the coming year we will offer Uinsure home insurance to existing policy holders.
- A number of new services through partnerships are planned surrounding estate planning and equity release.
- We remain committed to supporting the savings resilience of our members and are evaluating new ways to extend our reach to more households.

Reach

Improved engagement with members and a planned widening of our brand awareness as we seek to strengthen our positioning across our North West retail branches and grow national awareness around our lending solutions.

Our success this year

- We launched our member e-newsletter to a base of 4,777.
- Our insights and contact programme in branch were put on hold following the restrictions to branch services during the year, but with plans to reintroduce as soon as we are able.

Our plans for the future

- In 2021, we will detail our Corporate Social Responsibility plans and with it a planned widening of our engagement across our communities.
- Our support for charitable organisations will increase as we respond to the funding challenges brought by the pandemic.

Investment

Strategic investment in the Society remains significant, supporting our investment in services, products, people and operational resilience for the long-term interests of our members.

Our success this year

- Due to the pandemic we have paused the rollout of the "new look" Retail Concept branch.
- We have continued to prioritise our investment in people, welcoming new senior leaders and increasing our operational capacity across our teams.

Our plans for the future

- We will continue to deliver customer experience changes through the Society digital programme.
- A review of our estates strategy as the traditional use of office administration and business continuity centres has now evolved as we have responded to the pandemic.

Strategic Report

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.

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, 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 across the British Isles, 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 continued to invest in the retail franchise, focused on lending markets suited to our lending strategy 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 colleagues 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 through work on our colleague values 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.

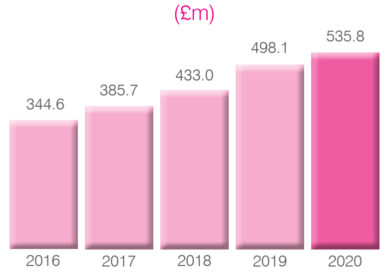
Key Performance Indicators

The Chief Executive's Review on pages 4 to 7 provides an overview of the Society's performance during 2020 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.

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.

Share Balances
(£m)



The Society continues to focus on generation of growth in retail funding through the branch network across Lancashire. The Society has positioned its mortgage asset strategy to support payment of competitive savings rates relative to high street competitors and continues to work hard to provide a high-quality customer experience in terms of both service and branch environment. This strategy has continued to deliver net growth in share balances of £37.7m to £535.8m, up 7.6% (2019: £65.1m to £498.1m, up 15.0%). Retail deposit growth was moderated in the year as the Society accessed £24.5m of funding from the Bank of England Term Funding Scheme with additional incentives for Small and Medium Sized Entities (TFSME) at Bank Rate to fund growth in lending.

The Society also maintains other deposit funding, predominantly from small and medium sized companies of £4.1m (2019: £5.8m). To provide further diversification, the Society maintains a degree of funding from the wholesale markets through a combination of central bank funding schemes and term deposits from local authorities and other building societies of £54.0m (2019: £24.5m). A significant driver in this growth was accessing four-year term funding at Bank Rate via the Bank of England TFSME to fund UK lending growth and provide stable low cost funding and stability of earnings in the event of a negative interest rate environment. TFSME funding at Bank Rate will predominantly support fixed rate lending hedged using Sterling Overnight Indexed Average swaps at nominal basis risk consistent with risk management objectives.

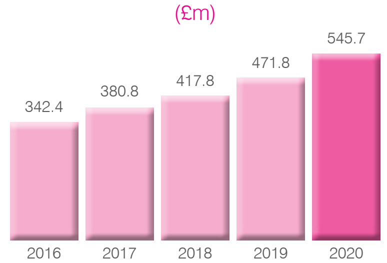
The proportion of funding not in the form of shares of 9.79% (2019: 6.4%) of shares and borrowings has increased, reflecting drawings under TFSME. This is judged not to be inconsistent with the strategic objective of attracting funding from individuals as it is intended to refinance this funding on maturity in 2024-25 with retail funding. In the meantime, participation in the scheme, apart from supporting the objectives of the Monetary Policy Committee for the wider benefit of the economy, has broader benefits for members in the form of supporting the Net Interest Margin through a period of economic uncertainty.

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 remained strong, with gross lending well above the level in 2019 at £152.8m, up 13.2% (2019: £135.0m, up 9.9%). This, in conjunction with strong performance on retention of customers reaching the end of their initial product period, contributed to loan book growth of £73.9m to £545.7m, up 15.7% (2019: £54.0m to £471.8m, up 12.9%).

Loans to Customers
(£m)



Society lending is focused primarily on loans to owner occupiers up to 80% LTV, with a degree of activity in year up to 85% LTV, and buy to let lending up to 65% 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 27 Credit Risk on pages 59 to 64:

- Lending Analysis: Loans to owner occupiers represents 72.5% (2019: 72.6%) of mortgages secured on residential property, with the remaining 27.5% (2019: 27.4%) 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 26.2% in the South East (2019: 25.7%), 18.7% in London (2019: 16.7%) and 12.9% in the North West (2019: 15.9%).
- Loan to Value Analysis: The average indexed loan to value is 34.3% (2019: 35.0%), the ratio having benefited from both increases in house prices and management of the lending mix during the year. It is pleasing to note that the net movement in assets over the year has been achieved at sub 60% Indexed LTV, where the risk of loss given default much reduced.
- Mortgage Arrears: At 31 December 2020, only 0.26% of the portfolio was past due by 3 months or more or impaired (2019: 0.12%).
- Forbearance: Levels of forbearance are modest and relate primarily to short-term interest only concessions. Balances recorded as benefiting from non Covid- related forbearance amounted to £0.088m across 1 account (2019: £0.110m across 1 account).
- Covid-19: The Society, in common with other UK mortgage lenders, granted an initial three-month payment holiday to customers who applied for the facility because their income was adversely affected by the pandemic. Customers were able to apply for an extension (payment deferral) of up to a further three months in certain circumstances. 265 customers were granted a payment holiday during the year. 21 cases were still active at the year end, with the remainder having returned to regular monthly payments or standard forbearance and arrears processes.

Strategic Report (continued)

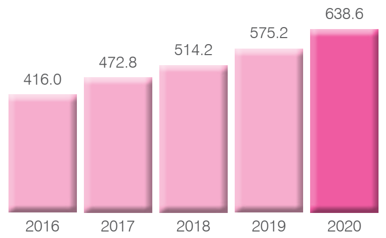
The Society retains a modest exposure to commercial lending, this aspect of the loan book being managed down. At 31 December 2020, these loans net of impairment provisions amounted to £0.892m (2019: £1.105m). These exposures are predominantly on commercial premises purchased by borrowers as an investment and to a lesser extent premises occupied by the business owning the property. In terms of geographical location, these exposures are located in North West England and Yorkshire and Humberside. Whilst 42.5% of these loans are past due by 3 months or above or impaired (2019: 35.3%), the exposures are managed closely as they are managed to resolution. Again, further analysis is provided in Note 26 Financial Instruments on pages 56 to 67.

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 £63.4m to £638.6m, up 11.0% (2019: £61.0m to £575.2m, up 11.9%).

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.

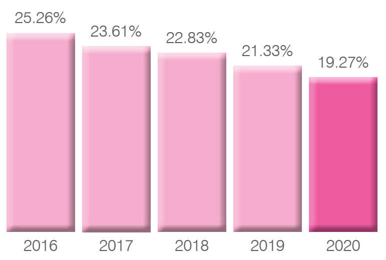
Capital

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 160-year history.

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 £41.3m or 6.96% of total share and deposit liabilities (2019: £39.4m or 7.41%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £42.2m or 7.11% of share and deposit liabilities (2019: £40.5m or 7.60%).

Both free and gross capital ratios, whilst reducing in the year, remain more than adequate. Ratios will continue to reduce in the coming years due to forecast increase in total assets exceeding the rate of growth in capital following which, asset and capital growth rates are anticipated to converge and the solvency ratio should stabilise.

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 (CRD 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 2.06% to 19.27% (2019: 1.50% to 21.33%) on a like-for-like comparative basis as a result of an increase in the capital requirement relative to capital resources in comparison to 2019, primarily as a result of the growth in residential mortgage assets.

The Society must also maintain at all times minimum capital requirements under Pillar 1 of the Capital Requirements Directive plus requirements under Pillar 2A as specified by the Prudential Regulation Authority (PRA). At the balance sheet date, Society Total Capital Requirement was £17.664m, with total requirements constituted of £17.493m relating to Pillar 1 and £0.171m relating to Pillar 2A (2019: £15.304m, of which £15.133m Pillar 1 and £0.171m Pillar 2A).

In terms of quality of capital, Article 92 of the Capital Requirements Regulations require a Core Tier 1 requirement of 4.5% (56%), a Total Tier 1 requirement of 6% (75%) and a Total Capital Ratio of 8% (100%). The Society is required to hold a minimum of £9.840m in Core Equity Tier 1 (CET1) Capital (2019: £8.512m), a minimum of £13.120m in Tier 1 Capital (including the minimum CET1 plus £4.608m Tier 1) and a maximum of £4.373m in Tier 2 Capital (2019: £11.350m Tier 1 and £3.783m Tier 2).

Regulatory Capital held by the Society at the balance sheet date was £42.575m of which £42.142m was CET1 and £0.433m Tier 2, well in excess of Individual Capital Guidance (2019: £40.810m of which £40.357m CET1 and £0.453m Tier 2).

CRD IV 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 decreased by 0.41% to 6.57% (2019: -0.48% to 6.98%).

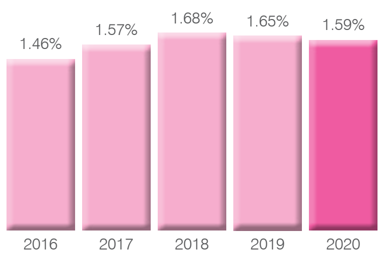
The Society already holds more than sufficient capital to meet the new CRD IV when fully phased in and expects to benefit from reduced standardised risk weights on implementation currently scheduled from 1 January 2023. This provides a solid platform from which to pursue a measured and sustainable increase in assets, whilst maintaining the protection of a strong capital position for members and depositors.

The Pillar 3 Disclosure as at 31 December 2020, as required under the CRD IV, which contains key pieces of information on the Society's Capital, Risk Exposures, Risk Assessment Process and Individual Capital Guidance, is available on the website at www.themarsden.co.uk.

Net Interest Margin

The Net Interest Margin (NIM) 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.

Net Interest Margin



During the year, in response to reductions in Bank Rate the Society managed rates, and to a lesser extent the mix of assets and liabilities, to ensure a broadly neutral impact on NIM. The margin reduced slightly on a larger balance sheet due to excess liquidity in the middle of the year before this was addressed through net mortgage lending in the final quarter.

Despite mortgage yields reducing following the Bank Rate reduction and volatility in the pricing of new mainstream mortgage assets as the impact of the pandemic on risk profile of assets has evolved, mortgage margins have been broadly maintained relative to funding costs.

Looking forward to 2021, the outlook for margins on mortgage lending will largely depend on the impact of the pandemic on the economy in terms of both house prices, which are forecast to come under pressure in the year, and unemployment which is forecast to rise. Competition will remain a significant factor dependent on the extent to which lenders target different asset classes depending on the perceived risk reward relationship and their appetite for risk. This may impact on volume and price in areas of the mortgage market supplied by the Society. As in previous years, the mortgage asset mix will be adjusted and the base grown again to minimise this impact, with our activities guided by continual assessment of the risk reward relationship of all lending.

In relation to funding, the availability of Bank of England funding via the TFSME, the drawing window for which is now extended to end October 2021, will continue to bear down to a degree on competition for retail funding and pricing. The anticipated upward pressure on retail funding costs as a result of maturity of the original Term Funding Scheme borrowings in 2020 and 2021 has also been mitigated by TFSME as this provides an opportunity to refinance these borrowings without recourse to retail savings.

The cost of holding excess liquidity represents a drag on the NIM 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 middle of the year, as uncertainty surrounding the impact of Government responses to the pandemic reduced mortgage activity in terms of demand and execution risks, the Society operated above the target level of liquidity, until demand returned strongly from late July onward.

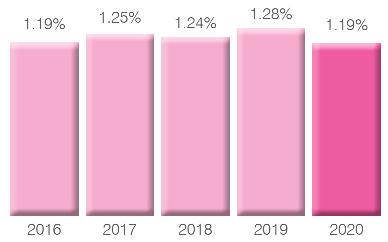
The Society maintains a stable retail funding base with 27.4% of share and deposit liabilities not accessible within less than three months (2019: 26.7%) and a further 22.8% only accessible on payment of a significant penalty of between 240 and 360 days' interest (2019: 24.1%). During the year, the Board intends to balance operation to the targeted level of liquidity, thereby improving the NIM for the benefit of members within a prudent framework of liquidity risk management, and its long-term objective of achievement of building sustainable growth in retail funding and prudent funding of growth in lending. Optimisation of liquidity will also prove beneficial in the event of implementation of Negative Interest Rate Policy by the Bank of England, thereby minimising the then greater carry cost of excess liquidity.

The Board will continue to manage the NIM to deliver the level of profitability judged appropriate to support a sustainable level of growth in both assets and capital in the long term.

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.

Management Expenses Ratio Net of Other Income



During the year, the ratio of management expenses net of other income decreased by 9bps to 1.19% (2019: +4bps to 1.28%). The absolute value of expenses net of other income has increased, again due to increased investment in both IT and people, as the Society ensures it retains both the resilience of IT platform and skills to support the business moving forward.

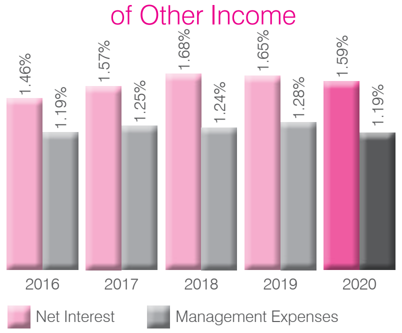
Looking ahead, upward pressure on absolute cost continues from a number of sources, the principal sources again being investment in IT to maintain operational resilience, efficiency and service and in the depth of people as the Society continues to attract, retain and reward colleagues required to support delivery of objectives moving forward. The Society aims to continue to mitigate continued growth in costs through a combination of continued balance sheet growth and maintenance and strengthening of the NIM.

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.

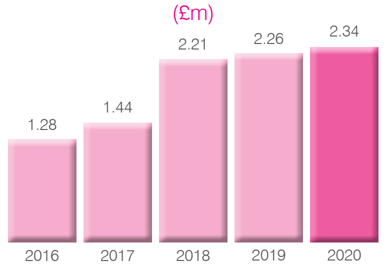
The relationship of the NIM to the Ratio of Management Expenses net of Other Income is the primary driver of profitability. During the year, the Society experienced only a modest reduction in the NIM albeit on a significantly increased balance sheet. The impact of this was that growth in Net Interest Income exceeded growth in costs driven by investment in both IT and people. The impact of this resulted in a 16.1% increase in operating profit before impairment losses and provisions to £2.38m (2019: -7.0% to £2.05m).

Net Interest Margin vs Management Expenses Ratio net of Other Income



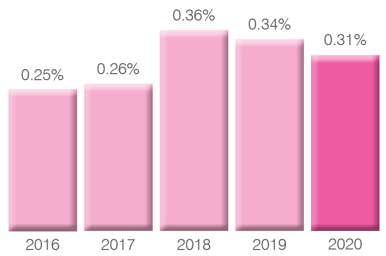
Society profit before tax was £2.34m (2019: £2.26m), the improvement in operating profit before impairment and losses and provisions being offset with a net increase in non-mortgage provisions and a reduced loan impairment recovery. Profit after tax as a percentage of mean assets relates the level of profitability to the average of total assets on the balance sheet at the beginning and end of the year. During the year, the ratio narrowed by 3bps to 0.31% (2019: -2bps to 0.34%).

Profit before tax
(£m)



Strategic Report (continued)

Profit to Mean Assets



Moving forward, during 2021, administrative expenses will continue to increase in absolute terms as the investment in IT and people continues. In terms of profitability to mean assets, the Society will continue to progress to a point at which the rate of growth in capital, through retained profit, is equal to or greater than growth in assets to deliver sustainable growth in the long term.

Principal Risks and Uncertainties

The Society's Risk Management Framework categorises the risks facing the Society into 3 key areas: Strategic Risk; Financial Risk, including Credit, Interest Rate & Liquidity Risk; and Operational & Conduct Risk. Risk management policies, aligned to these categories, are in place to ensure that all operations are within the Board-approved risk appetite.

The principal strategic risks facing the Society are:

- Covid-19, Brexit and the Impact on the Economic Environment: Covid-19 is having a widespread impact on the economic environment and there is considerable uncertainty as to the severity and timing of unemployment increases and the extent to which the Government's initiatives to support the housing market will be effective. Whilst the UK Government has negotiated a Trade Deal with the EU on 24 December 2020, the impact of this on the UK economy remains unclear. As a UK mortgage lender, these present a risk that the Society's customers will be unable to continue to afford their mortgage repayments, as well as reducing the value of the mortgage security. A further risk arises from the Bank of England's monetary policy, in that the Building Society Model performs less well in a low interest rate environment because the return on unremunerated capital is reduced as the average return on total assets decreases. In addition, as the NIM compresses, the larger the cost base of the institution, the greater the pressure on trading profitability. Nevertheless, through the process of prudent balance sheet risk management, business, capital and liquidity planning, including stress testing of economic scenarios, the Directors have concluded that the Society has more than sufficient capital and liquidity resources to weather the storm.
- Competition: With competition in the mortgage market continuing to remain high, 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 low level of interest rates and level of competition makes the degree of disruption more broad-based than usual.
- Climate Change: The risks to the Society arising from climate change are recognised in terms of both physical and transition risks. Physical risks arise from a number of factors, most notably extreme weather events and longer-term shifts in the climate. Primary drivers of physical risks on the Society include increased risk of flooding, subsidence and coastal erosion impacting on the value of, and longer-term ability to insure, mortgaged properties resulting in increased risk of financial loss. Transition risks arise from the process of adjustment to a low carbon economy, driven by a number of factors, most notably changes in policy and regulation, shifting sentiment and societal preference and emergence of disruptive technology and business models. The Society is increasingly cognisant of these risks and is continuing to refine its approach to managing the financial risks associated with climate change.

In addition to the specific risks outlined above, the table opposite provides a summary of the principal risks, a 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.	• All mortgage loans are manually underwritten according to a Board-approved Credit Risk Management Policy to assess the credit quality of the customer, their ongoing ability to continue to be able to afford their mortgage repayments and the value of the Society's security. • The Society has a series of Board-approved risk appetite limits and all lending must be done within appetite. • The performance of the loan portfolio is monitored closely to ensure it is performing as expected so that swift action can be taken if necessary. • The Society is monitoring the performance of accounts post Covid-19 payment deferral to assess the risk of this translating into increased losses.
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.	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.	• Risk is managed in line with a Board-approved policy and risk appetite. • The significant majority of exposures are with the Bank of England and UK Government Treasury Bills alongside 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 the 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 outlook for UK interest rates varies considerably, both upward and downward including the risk of negative interest rates, with the market view of the timing and degree of potential of rate increases/decreases varying considerably.	• The risk is primarily 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, predominantly on balance sheet or off balance sheet with minimal basis risk to minimise volatility in earnings. • The Board has set out clear quantified statements of risk appetite for each aspect of Interest Rate 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 primary liquidity risks arise from the nature of the retail deposit base and its maturity profile and the extent to which customers would seek to withdraw funds in response to a loss of confidence in the ability of the Society to meet its obligations as they fall due.	• The Society manages this risk through continuous forecasting of cashflow requirements and assessment of retail and wholesale funding risk, in particular the characteristics of deposit base and concentration of the maturity profile of fixed-term funding. • 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.
Cyber Risk The risk of harm to the Society as a result of breaches of, or attacks on, information systems.	The Society recognises the increasing threat that cyber attacks present to the financial system, so this is a distinct risk in the Society's Risk Management Framework. Failure to protect the Society from cyber attacks poses risks of direct financial losses, as well as impacting the ability to perform significant business operations.	• Cyber security forms part of the Society's Information Security Policy Framework. • The Society has chosen to base its Cyber Security Strategy around the National Cyber Security Centre's (NCSC) framework pillars and continues to have regard to the FCA initiative Cyber Coordination Group that maintains a cyber risk 'radar'.
Operational Risk and Resilience The risk of loss resulting from inadequate or failed internal processes, people and systems. Operational resilience is the Society's ability to maintain important business services in the event of experiencing adverse external or internal events.	Within the Society, Operational Risk is an umbrella term that covers a range of risk types including financial crime, legal and regulatory, people and reputational risk. With Covid-19, operational risk has increased as the Society moved many Principal Office colleagues to working from home.	• The Society has processes and procedures in place to manage operational losses, and the effectiveness of these controls are managed through the Operational and Conduct Risk Committee. • The Society has undertaken Business Impact Assessments to identify and map Important Business Services and set specific impact tolerances that are consistent with Board risk appetite. • To manage the additional risks of home working and changes to working practice, additional controls have been implemented to manage risk.
Conduct Risk The risk that any action, either by the Society or colleagues, that leads to customer detriment or has an adverse impact on market stability or effective competition.	The Society is committed to the fair treatment of customers and to ensure that the systems and controls in place both prevent and detect misconduct.	• The Society has policies and procedures in place to ensure that fair customer outcomes are delivered. • The Society's Compliance function is in place to ensure that the Society and colleagues comply with all applicable legislation and regulation.

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

J L Walker
Chairman

5 March 2021

Your Board

The Board is made up of Executive and Non-Executive Directors. Executive Directors are full-time colleagues of the Society and lead the Executive and senior leadership teams, in managing the day-to-day business. We consider that all Non-Executive Directors are independent in accordance with the criteria set out in the UK Corporate Governance Code 2018. All Directors are put up for annual re-election at the Society's Annual General Meeting.

Rob Pheasey BSc (Hons)
Chief Executive

Having joined the Society in 1989, Rob became a member of the Society's Senior Management team 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 Management Assets & Liabilities Committee.

Outside the Society, Rob acts as Chairman of Pendle Education Trust and as a Non-Executive Director of Nelson & Colne College.

Neal Walker BA (Hons) ACIB
Finance Director

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 is responsible for the Society's finance and treasury activities, ensuring the integrity of financial and regulatory reporting and managing the Society's liquidity, funding and capital positions.

Neal chairs the Management Assets & Liabilities Committee.

Outside the Society, Neal is a Non-Executive Director of Northern Star Academies Trust.

John Walker ACIB
Chairman

John joined the Board as Non-Executive Director in March 2018 and was appointed Chairman on 1 June 2018.

A qualified banker, John spent time with Barclays gaining both corporate and business experience before moving to Barclays Private Equity, latterly Equistone, where he remained for some 21 years.

John brings diverse experience as a Non-Executive Director, having sat on numerous boards across a range of sectors, including insurance broking, online retailing and recruitment.

John is a member of the Nominations and People, Remuneration & Culture Committees.

Outside of the Society, John is a Non-Executive Director at WRS (Worldwide Recruitment Solutions), Alliance Fund Managers, Global Autocare Holding Limited, and Fruugo.com.

Your Board (continued)

Alison Hope BSc (Hons) FCA

Non-Executive Director

Alison joined the Board as Non-Executive Director 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 Trustee of Eureka! The National Children's Museum and 1855 Station Building Limited.

Alison is a member of the Board Audit & Compliance Committee and was Committee Chair until 9 November 2020. She is also a member of the Board Risk, People, Remuneration & Culture and Nominations Committees.

Mark Gray BA (Hons)

Non-Executive Director

Mark joined the Board as a Non-Executive Director in June 2018.

Mark has extensive risk and governance experience gained within the financial sector holding previous positions at Shawbrook Bank, GMAC (General Motors Acceptance Corporation) and The British Business Bank. He is currently Interim Risk and Compliance Director for the Money and Pensions Service (MaPS), a Government agency providing guidance on pensions, debt advice and helping to improve the nation's overall financial understanding and capability.

Mark chairs the Board Risk Committee and sits on the Board Audit & Compliance and Nominations Committees.

Michele Ibbs BA (Hons) PGDip

Senior Independent Director

Michele joined the Board as Non-Executive Director 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 Services Limited.

Michele is the Senior Independent Director. She chairs the Board Nominations and the People, Remuneration & Culture Committees. She is also a member of the Board Audit & Compliance and Board Customer & Distribution Committees.

Carol Ritchie BA (Hons) ACA CTA

Non-Executive Director

Carol was appointed Non-Executive Director 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 chaired the Board People, Remuneration & Culture Committee until she was appointed Chair of the Board Audit & Compliance Committee in November 2020. She is also a member of the Board Risk Committee.

Chris McDonald BSc (Hons)

Non-Executive Director

Chris joined the Board as a Non-Executive Director in June 2018 bringing recent and highly relevant financial services experience gained during his previous role as Operations & HR Director at Cumberland Building Society.

Chris has a strong marketing focus and functional breadth including change management and operations within the financial services sector.

Chris Chairs the Board Customer & Distribution Committee and is a member of the Board Risk and Board People, Remuneration & Culture Committees.

Outside of the Society Chris, is a Non-Executive Director of the Brathay Trust.

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 2020.

Business Objectives

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

Business Review

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 Notes 26 Financial Instruments on pages 56 to 58, Credit Risk on pages 59 to 64, Liquidity Risk on pages 64 to 65 and Market Risk on pages 66 to 67.

Profits and Capital

In 2020, the Society profit before tax was £2.343m (2019: £2.262m). Total comprehensive income after tax transferred to general reserves was £1.767m (2019: £1.807m).

Total Society Reserves at 31 December 2020 were £42.242m (2019: £40.475m).

Free capital represents gross capital and collective mortgage loss provisions less fixed assets as shown in the balance sheet. Society free capital is £41.3m or 6.96% of total share and deposit liabilities (2019: £39.4m or 7.41%). Gross capital comprises reserves, as shown in the balance sheet. Gross capital is £42.2m or 7.11% of share and deposit liabilities (2019: £40.5m or 7.60%).

Mortgage Arrears

At 31 December 2020, there was one (2019: nil) mortgage account, including those in possession, which were twelve or more months in arrears.

Charitable Donations

During the year, the Society made a donation of £608 (2019: £337) to North West Blood Bikes (2019: North West Air Ambulance) in respect of votes received at the Annual General Meeting. In addition, the Society made donations of £27,293 (2019: nil) to the following charities in connection with Affinity Account relationships:

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

In addition, the Society accrued for donations of £22,926 (2019: £27,293) which will be paid over during 2021 to the following charities in connection with Affinity Account relationships:

- North West Air Ambulance
- North West Blood Bikes
- 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 2020 were 18 days (2019: 17 days).

Colleagues

The Board recognises the important contribution made by management and colleagues to the success of the Society and wishes to thank them for their efforts during 2020.

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

It is the Society's policy to ensure that no colleague 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 colleagues, 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, the 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 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 annual accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business

Directors' Report (continued)

Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

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

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

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 a period of 12 months from signing the accounts. In making the assessment, the Directors have reviewed the Society Profit, Capital and Liquidity positions and considered arrangements to ensure Operational Resilience. This assessment takes into account both planned and stressed outcomes, the severity of which are judged sufficient to reflect risks generally including the impact of Covid-19. After considering all this information, the Directors are satisfied that the Society has sufficient resources to continue in business for a minimum of 12 months from the date of signing the accounts. For this reason, they continue to adopt the going concern basis in preparing the annual accounts (refer Note 1.1 on page 39).

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:

J L Walker
M R Gray
A M Hope
M L Ibbs
C McDonald
R M Pheasey
C A Ritchie
N Walker

Biographies of the Directors appear on pages 15 and 16.

Having regard to the UK Corporate Governance Code 2018, all Directors will retire and being eligible will seek re-election at the Annual General Meeting.

At 31 December 2020 none of the Directors had any interest in the shares, or debentures of any connected undertakings of the Society.

Auditors

The Society's Auditors, Deloitte 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 Deloitte LLP as auditors of the Society.

On behalf of the Board of Directors

J L Walker
Chairman

5 March 2021

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 of its current and future members.

The Financial Reporting Council published the UK Corporate Governance Code in July 2018. 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 describes the Society's governance practices.

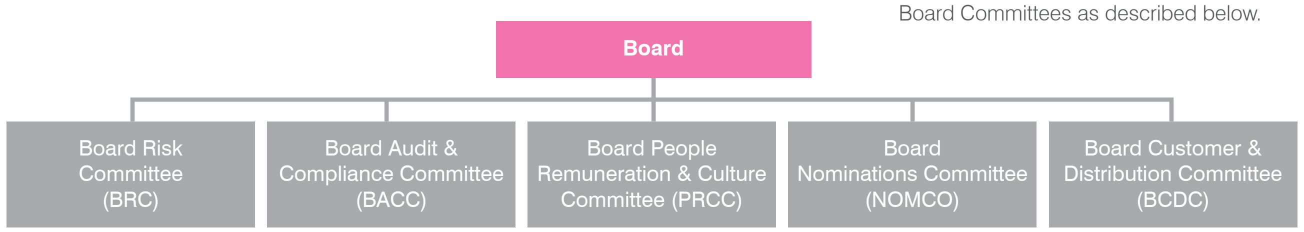
Board leadership and company purpose

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

The Society is led by an effective Board whose role 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 Board Committees as described below.



Board Risk Committee meets at least four times 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.

BRC composition 31 December 2020	M R Gray (Chairman)
	A M Hope
	C McDonald
	C A Ritchie
	By invitation – Chief Risk Officer

Board Audit & 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.

BACC composition 31 December 2020	C A Ritchie (Chairman)
	M R Gray
	A M Hope
	M L Ibbs

Board People, Remuneration & Culture Committee meets at least twice a year and has responsibility for policy on remuneration of the Executive Directors, senior management and the Chairman. The Chairman and Chief Executive take no part in the discussion concerning their individual remuneration.

PRCC composition 31 December 2020	M L Ibbs (Chairman)
	A M Hope
	C McDonald
	J L Walker
	By invitation – Chief Executive

Board Nominations Committee meets at least once a year and has responsibility for succession planning and the appointment of new directors.

NOMCO composition 31 December 2020	M L Ibbs (Chairman)
	M R Gray
	A M Hope
	J L Walker
	By invitation – Chief Executive

Corporate Governance (continued)

Board Customer & Distribution Committee meets at least three times each year to oversee and promote good governance of the strategy and activities of the Society in relation to its customers, key distribution partners and the products and services that it provides to them.

BCDC composition 31 December 2020	C McDonald (Chairman)
	M L Ibbs
	By invitation – Chief Executive

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

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.

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

The Board considers its strategy annually together with the Society's purpose and values, to ensure our culture is aligned. More detail is set out in the Strategic Report beginning on page 8. The Board, through its committees regularly receives information to provide assurance that culture is aligned to our purpose and values.

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

During the year, a refresh of reporting to the Board was completed with the introduction of a Society dashboard detailing key indicators and reformatting reporting templates from key areas of the business.

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

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

The Society values its mutual status and seeks the views of its members in a variety of ways, including customer feedback surveys. Members are invited to attend the Annual General Meeting (AGM), where they can ask questions and voice their opinions. All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer member questions. The Society is active on social media and has run campaigns to increase member engagement both on the Society website and in branch. During 2020, the Board Customer & Distribution Committee was successfully established and met three times to discuss new propositions including Shared Ownership, Reclaim Fund and Uinsure, together with Vulnerability and Lending into Retirement.

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

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

In year, the Board People, Remuneration & Culture Committee reviewed colleague remuneration alongside Executive and Director remuneration to ensure that related policies, incentives and rewards are aligned with our culture to promote long-term sustainable success. The Chair of the People, Remuneration & Culture Committee is the designated Non-Executive Director for workforce engagement; supported by the HR Manager and members of the Executive Committee utilising a variety of forums, such as the annual colleague engagement survey.

The Society has an established 'Speak up' (Whistleblowing) policy designed to support our values and ensure colleagues can raise concerns without fear of suffering retribution or victimisation, providing a transparent and confidential process for dealing with concerns. The Society's Whistleblowing Champion was A M Hope during 2020, however this has now transferred to C A Ritchie following her appointment as Chair of the Board Audit & Compliance Committee in November.

Division of responsibilities

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

The Chairman sets the direction and culture of the Board, facilitating effective contribution from Directors, maintaining constructive relations both in and outside the boardroom between the Executive team and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information. The Chairman leads the annual board evaluation with support from the Senior Independent Director as appropriate and acts on the results. Appointed in March 2018, the Chairman was considered to be independent at that time.

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

At 31 December 2020, the Board comprised six Non-Executive and two Executive Directors providing a balance of skills appropriate to the requirements of the business.

Director	Board	Risk	Audit & Compliance	People, Remuneration & Culture	Nominations	Customer & Distribution
J L Walker (Chairman)	11 (11)			2 (2)	1 (1)	
M R Gray	11 (11)	4 (4)	4 (4)		1 (1)	
A M Hope	10 (11)	4 (4)	4 (4)	1 (1)	1 (1)	
M L Ibbs (Senior Independent Director)	10 (11)		4 (4)	2 (2)	1 (1)	3 (3)
C McDonald	11 (11)	4 (4)		2 (2)		3 (3)
R M Pheasey (Chief Executive)	11 (11)					
C A Ritchie	10 (11)	4 (4)	4 (4)	1 (1)		
N Walker (Finance Director)	11 (11)					

()= Number of meetings eligible to attend   Not a member of this committee

All Non-Executive Directors have held office for less than nine years, with the exception of A M Hope whose period in office passed nine years in October 2019. A M Hope will seek election for a further year at the AGM in April 2021 to support succession planning and transition of the Audit Chair.

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. Under the Code, the Board considers all its Non-Executive Directors to be independent in character and judgement.

The roles of Chair and CEO are held by different individuals, with a clear division of responsibilities. The Chair, who is a part-time Non-Executive Director, is responsible for leading the Board and ensuring it acts effectively. The CEO has responsibility for managing the Society and for the implementation of the strategies and policies agreed by the Board.

M L Ibbs is the Society's Senior Independent Director, acting as a sounding board for the Chairman and with other Non-Executive Directors, appraises the Chairman's performance at least annually.

H. Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The requirement for Directors to devote sufficient time to discharge their responsibilities effectively is stated in the letter of engagement supplied on appointment. This point is considered as part of the annual performance evaluation review. Details of the number of Board and Committee meetings in 2020 and the attendance record of individual Directors are set out above. 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.

Where Directors have other significant commitments, these are set out in the Annual Business Statement on pages 69 and 70 under section 3, information relating to Directors.

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

The 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.

Composition, succession and evaluation

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

The Nominations Committee has responsibility for succession planning for both the Board and senior management, recommending to the Board 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.

The Society values diversity and reflects this within policy. In making appointments, the Board will seek to achieve a diversity and balance of skills, with independence and experience being key determinants, where selection of the most suitable candidate is paramount. 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.

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

Information relating to Directors is set out on pages 15 and 16. This demonstrates that the Society's Board has a strong mix of skills and experience relevant to the Society and its strategy.

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

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.

Corporate Governance (continued)

All evaluations involve a numeric assessment of performance against predetermined criteria with further comment in support where appropriate. All responses are consolidated by the General Manager & Secretary 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.

The Board is of the view that all Directors contribute effectively and are considered suitable for election/re-election (where appropriate) at the AGM 2021.

Audit, risk and internal control

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

The Committee meets at least four times a year. Prior to each meeting, the external auditors meet with the Committee without the Executive Directors being present. Minutes of the Committee's meetings are provided to the subsequent Board Meeting.

The Committee implements the Society's policy on the use of the external auditor for non-audit work, the purpose of which is to ensure the continued independence and objectivity of the external auditor. Our external auditor, Deloitte LLP did not undertake any non-audit work in year.

The Chairman of the Board is not a member of the Board Audit & Compliance Committee.

The Audit and Compliance Committee Report on pages 24 and 25 describes how the Audit & Compliance Committee applies the Code principles in relation to corporate reporting and internal control.

N. The Board should present a fair, 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 and 18 in the Directors' Report. The Chief Executive's Review on pages 4 to 7 and the Strategic Report on pages 8 to 14 provides 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.

The Audit and Compliance Committee Report on pages 24 and 25 describes the main areas of accounting judgement considered by the Audit & Compliance Committee.

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

The 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 Plan (RP).

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 ICAAP and ILAAP. 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 & 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.
- Executive Committee: The management committee responsible for monitoring and review of strategic risks prior to review at Board.
- Management Assets & Liabilities Committee: Responsible for managing significant Financial Risks including Interest Rate, Counterparty Credit, Liquidity, Funding and Encumbrance Risk and Product Pricing and the Net Interest Margin.
- Management Credit Risk Committee: Responsible for reviewing changes in the credit risk profile of the Society, discussing and, where appropriate, recommending changes to lending policy.
- Management Operational & Regulatory Risk Committee: The management committee responsible for monitoring and review of operational, conduct and regulatory risks prior to review at the Board Risk Committee.

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 distinct Risk and Compliance functions. A Chief Risk Officer was appointed in 2020 to strengthen the robustness and independence of risk management needed to support the Society's planned growth. The General Manager & Secretary oversees the Compliance Function. These functions challenge and guide the business in managing risk exposure and 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 are 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.

Remuneration

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

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

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

The Directors' Remuneration Report on pages 26 and 27 details the Board's position on code principles related to remuneration.

On behalf of the Board of Directors

J L Walker
Chairman

5 March 2021

Audit and Compliance Committee Report

An overview of the responsibilities of the Committee is as follows:

- Monitoring the integrity of financial statements of the Society.
- Reviewing the 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.

Membership of the Committee is drawn from four independent Non-Executive Directors. The composition of the Committee as at 31 December 2020 was C A Ritchie (Chair), M R Gray, A M Hope and M L Ibbs. At the invitation of the Chairman of the Committee, the Chief Executive, Finance Director and Chief Risk Officer together with 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.

Provisioning for loan impairment

The Committee monitored loan impairment provisions through review of the key inputs and assumptions to the Society provisioning model. In the absence of historical loss experience by the Society, the Committee focused closely on the methodology and model inputs developed by management, including the appropriateness of any external information used. The Committee paid attention to the impact of different assumptions on the outcome of the models to satisfy itself that the quantification of impairment provisions is appropriate having regard to the impact of Covid-19 and the economic outlook at the balance sheet date, including assumptions for house prices and probability of default.

Effective Interest Rate

Income in the form of interest receivable, together with fees earned and incurred as a result of bringing mortgages onto the balance sheet, are measured under the effective interest rate method. This approach involves consideration of both the effective life of the loan, and degree of amortisation of balance over the effective life, based on observed behaviour of mortgages and management judgement including any impact of Covid-19. The Committee reviewed empirical data prepared by management on both effective life and amortisation of balance and conclusions formed on the same for utilisation in determining the approach taken and judgements applied by management in recognition of income on mortgages and is satisfied that the estimates and accounting treatment are appropriate.

Hedge Accounting

During the year, the Committee reviewed the approach regarding a change in the Benchmark Risk being hedged from 3m London Interbank Offered Rate to Sterling Overnight Indexed Average and the resulting de-designation and re-designation of the hedge relationship. As a result of its enquiries the Committee is satisfied the approach adopted by the Society is in accordance with IAS39.

Pension Obligation

The Committee has overseen the refinement of the current model developed by management to quantify the Pension Obligation using probability weighted cohort life expectancy.

The Committee also considered matters raised during the Statutory Audit, through discussion with senior management of the Society and the external auditor and concluded there were no material adjustments required to the financial statements.

Risk Management and Internal Control

The Society recognises the importance of maintenance of a sound system of internal control.

Management is responsible for designing an internal control framework appropriate to the nature, scale and complexity of its operations. The Audit & Compliance Committee is responsible for keeping under review the Society's internal financial controls and systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, confirming performance by receipt of reports from Internal Audit and Compliance plus any second line of defence risk monitoring.

RSM Risk Assurance Services LLP deliver internal audit services to the Society and provide independent assurance to the Board, via the Audit & Compliance Committee, on the effectiveness of the Internal Control Framework. The Committee receives, considers and approves the Internal Audit Strategy and Plan, including the budget for and focus of assurance activity. Internal Audit provides the Committee with reports on its findings and recommendations as part of its work and updates on progress by management in implementing agreed actions, including verification actions have been implemented as agreed. The following aspects of internal control were reviewed by the Committee during the year:

- Cyber Risk Management and Data Governance.
- Operational Resilience.
- Financial Crime Prevention.
- Governance Processes and Management Information.
- Mortgage Underwriting.
- Payments, Arrears and Collections.
- Vulnerable Customers.
- Regulatory Returns.

The General Manager and Secretary provides second line assurance on systems and controls over compliance with regulatory obligations across Society Operations. The Committee receives, considers and approves the annual plan of compliance activity. The Committee receives a report on activity in respect of implementation of the plan including activity on assurance over regulatory risk and compliance support provided to business units.

External Audit

The Audit & Compliance Committee is responsible for overseeing the Society's relationship with the External Auditor including appointment and tendering, terms of engagement and remuneration, assessment of independence and the annual audit cycle.

At the start of the audit cycle each year the Committee undertakes a review of the Audit Strategy put forward by the External Auditor and receives a formal update on conclusion of the Interim and Final Audit including details of any material control weaknesses brought to its attention. The Committee is also responsible for monitoring the performance, objectivity and independence of the external auditor, ensuring the policy on provision of non-audit services by the external auditor is strictly applied. In the year, the external auditor was not engaged to provide any non-audit services to the Society, the ratio of non-audit services relative to the audit fee during the year being nil (2019: nil).

In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis and at least every 10 years. The external auditors are required to rotate every 20 years. The current auditors are Deloitte LLP who have held the role since April 2020.

Whistleblowing

The Committee is responsible for reviewing and approving the Society's Whistleblowing Policy annually. The Committee continues to be satisfied that the Society's Whistleblowing Policy remains appropriate and that the requisite arrangements are in place to enable colleagues to raise concerns about possible improprieties on a confidential basis.

Financial Reporting

In relation to financial reporting, the role of the Committee is to monitor the integrity of the financial statements. In order to discharge this responsibility, the Audit & Compliance Committee considered the accounting policies adopted by the Society, the presentation and disclosure of financial information and key accounting judgements made by management, including disclosures relating to the impact of Covid-19.

During the year, the Committee focused on the following matters having regard to the significance of their impact on the reported position and the involvement of a high degree of complexity, judgement or estimation by management. Having regard to the work outlined in this report and following a review of the financial statements, the Committee concluded that taken as a whole the Annual Report and Accounts were fair, balanced and understandable and provide a clear and accurate representation of the Society's financial position and prospects.

C A Ritchie

Chair of the Audit & Compliance Committee

5 March 2021

Directors' Remuneration Report

The purpose of this report is to inform members about the policy for the remuneration of Executive, senior management and Non-Executive Directors and the process for determining the level of remuneration. 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.

The Society's remuneration policy supports our strategic objective of growing our savings and mortgage business to deliver long-term sustainable value to our members, avoiding a focus on short-term performance. The Society's people live by our five core values, which underpin delivery of our strategy:

- Make a lasting impression;
- Proud of our past, excited by our future;
- Passionate about people;
- Work together; and
- Deliver on promises.

We believe 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. The remuneration of Executive Directors and senior management 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 Society's overall performance; individual performance; the salaries and incentives payable to Executives in similar roles within building societies and levels generally within the wider financial services industry.

Executive Directors, senior managers and colleagues 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. From 1 July 2011, the Society introduced a Salary Sacrifice Scheme for all colleagues including Executive Directors.

In addition, Executive Directors can receive an amount in excess of the Society Bonus Scheme reflecting performance in delivering long-term business plan objectives and/or individual performance in delivering outcomes in excess of planned performance of the Society. Any payment is taxable but non-pensionable. This scheme was suspended for 2020 following a recommendation from the Executive Directors in response to the PRA Statement on bonus scheme arrangements, and also in response to the uncertainty arising from Covid-19 and the consequent impact on the economic outlook.

A 6% bonus, as a proportion of reference salary prior to any salary sacrifice, was payable in respect of 2020 (2019: 17%), 6% in respect of the Society Bonus Scheme and nil in recognition of the scheme for Executive Directors (2019: 9% plus 8%). Payments under the scheme are made during the first half of the year following that in question and are not currently subject to deferral. During the year, no colleagues were placed on the Government furlough scheme.

Executive Directors also participated in a defined contribution Group Personal Pension Scheme which is available to all eligible colleagues of the Society at a contribution rate of 10% of salary per annum.

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.

The People, Remuneration & Culture Committee is responsible for determination of policy on the level of remuneration payable to the Executive Directors, the senior management team and the 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 People, Remuneration & Culture Committee had two meetings during 2020. The composition of the Committee as at 31 December 2020 was M L Ibbs (Chair), A M Hope, C McDonald and J L Walker. The Chief Executive attends each meeting by invitation. Neither the Chairman or Chief Executive take part in the discussions on their individual remuneration. No increase was applied to the Non-Executive Director remuneration in the year in response to the uncertainty arising from Covid-19 and the consequent impact on the economic outlook. This approach was also adopted by the People, Remuneration & Culture Committee in respect of the remuneration of the Chairman.

The terms of reference of the People, Remuneration & Culture Committee are published on the Society's website.

Remuneration of Non-Executive Directors, excluding the Chairman, is determined by the Non-Executive Director Remuneration Committee 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. The composition of the Committee at 31 December 2020 was J L Walker (Chairman) and R M Pheasey. The remaining Non-Executive Directors take no part in discussion in respect of their own remuneration.

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.

Directors' Remuneration Report (audited information)

2020

Non-Executive		Fees/Salary	Variable Remuneration	Benefits	Pensions and group life contributions	Total
		£	£	£	£	£
J L Walker	Chairman	49,800	-	-	-	49,800
M R Gray		27,000	-	-	-	27,000
A M Hope		27,000	-	-	-	27,000
M L Ibbs	Senior Independent Director	27,000	-	-	-	27,000
C McDonald		27,000	-	-	-	27,000
C A Ritchie		27,000	-	-	-	27,000
		184,800	-	-	-	184,800
Executive						
R M Pheasey	Chief Executive	174,054	11,064	47,392	12,880	245,390
N Walker	Finance Director	129,234	8,652	34,934	15,008	187,828
		303,288	19,716	82,326	27,888	433,218

2019

Non-Executive		Fees/Salary	Variable Remuneration	Benefits	Pensions and group life contributions	Total
		£	£	£	£	£
J L Walker	Chairman	49,350	-	-	-	49,350
M R Gray		26,752	-	-	-	26,752
A M Hope		26,752	-	-	-	26,752
M L Ibbs	Senior Independent Director	26,752	-	-	-	26,752
C McDonald		26,752	-	-	-	26,752
C A Ritchie		26,752	-	-	-	26,752
		183,110	-	-	-	183,110
Executive						
R M Pheasey	Chief Executive	166,878	30,431	46,047	13,601	256,957
N Walker	Finance Director and CRO	122,793	23,801	31,037	17,022	194,653
		289,671	54,232	77,084	30,623	451,610

From 1 July 2017, in response to implementation of changes to personal taxation in respect of pension contributions, the Board resolved to transition from a contribution of 10% of salary in respect of pension contributions to a cash allowance of 10% of salary paid in lieu of pension contributions. Executive Directors' salaries are disclosed net of salary sacrificed under the scheme available to all colleagues, within which the Executive Directors participate, with salary sacrificed disclosed within pensions and group life contributions.

M L Ibbs
Chair of the People, Remuneration and Culture Committee

5 March 2021

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

1 Opinion

In our opinion, the financial statements of Marsden Building Society (the 'Society'):

- Give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of the Society's income and expenditure for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- The income statement;
- The statement of comprehensive income;
- The statement of financial position;
- The statement of changes in members' interests;
- The cash flow statement; and
- The related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2 Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3 Summary of audit approach

Key audit matters	The key audit matter that we identified in the current year was: Residential loan loss provisioning
Materiality	The materiality that we used for the financial statements was £360,000 which was determined on the basis of 0.9% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team
Significant changes in our approach	Last year, the previous auditor's report included the impact of the UK exiting the European Union as a key audit matter. This was because of the uncertainties this caused to the future economic environment. In the current year, the outcome of the trade deal was known which reduced the uncertainty compared to the prior year end and therefore it has been concluded not to be a key audit matter in the current year.

4 Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- Assessing the assumptions used in the forecasts prepared by management including their considerations of Covid-19;
- Testing the historical accuracy of forecasts prepared by management, by comparing historic forecasting to actual results; and
- Involving prudential risk specialists in assessing the Society's compliance with regulation including capital and liquidity requirements and the information supporting the liquidity and capital forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Residential loan loss provisioning

Key audit matter description	Under IAS 39, the Directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. The Society currently holds total loans and advances to customers on its balance sheet in relation to residential mortgages of £546m (2019: £472m). As at the 31 December 2020, the Society held provisions against residential mortgages of £433k (2019: 482k). This comprises of a collective provision for losses incurred but not reported and a specific provision for loans where there has been an observable impairment trigger. Determining impairment provisions against loans and advances to customers is a judgemental area requiring an estimate to be made of the losses incurred within the residential mortgage lending portfolios. This requires the formulation of assumptions relating to potential impairment indicators, customer default rates and property values and movements, all of which may be sensitive to changes in the economic environment. The loan loss provisioning model adopted by management is reliant on a number of assumptions which are obtained from external sources. We have pinpointed out key audit matter in the current year audit around the quick sale discount, probabilities of default ('PD') and forward-looking house prices. Judgement is required to select the most appropriate data sets from the external sources, including management adjustments, to reflect the specific characteristics of the Society's portfolio and the current environment caused by Covid-19 and the UK's departure from the European Union. We have considered that given the size of this balance and the focus on it from users of the financial statements, there is incentive that may exist by management to manipulate this account through using unsupportable or inappropriate assumptions. As such, we have considered there to be risk for potential fraud related to this matter. The Society's associated accounting policies in relation to loan loss provisioning are detailed on pages 41 and 42 and the supporting note is on pages 50 and 51 (note 15). This key audit matter was discussed by the Board Audit & Compliance Committee as detailed in their report on pages 24 and 25.

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

How the scope of our audit responded to the key audit matter	We obtained understanding of the relevant controls over the loan loss provisioning process. This included assessment of the key management review controls. In conjunction with our internal IT specialists, we tested the general IT controls over the loan administration systems. We assessed the quick sale adjustment, PD and forward house price assumptions included within the residential provisioning model through comparison against both internally generated information, third party industry data and peer benchmarking. We assessed the impact of Covid-19 and the UK's exit from the European Union on the provision and the key assumptions included within the provision calculation. In respect of the prime residential mortgage PD assumption we performed a qualitative assessment to determine whether there are additional factors inherent in the Society's loan book that might result in assumptions obtained from the external sources not being appropriate. We assessed the methodology and mechanical accuracy of the loan loss provisioning model. We reconciled the mortgage book used within the residential provisioning model to the book on which we had performed our substantive testing procedures, to assess whether the data was accurate and complete.
Key observations	Based on the procedures we have performed, we have concluded that the residential loan loss provision is appropriate.

6 Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

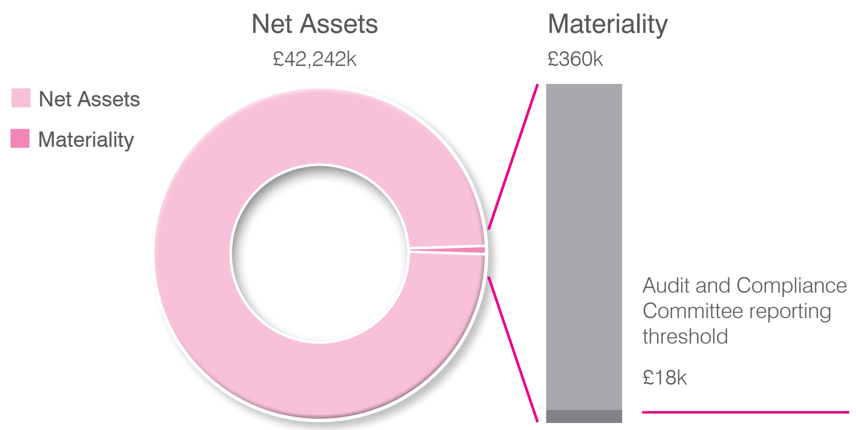
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£360,000 (2019: £360,000)
Basis for determining materiality	We have used 0.9% of net assets as the benchmark for determining materiality.
Rationale for the benchmark applied	We consider net assets is an appropriate benchmark to use because the Society's aim is to maintain a strong asset base that will allow the Society to invest in activities for its members including increasing future lending, which are a key focus for the Society's members and regulators We commonly use 1% of net assets as the basis of determining materiality for building societies. However, the emergence of Covid-19 has caused significant global economic uncertainty, which has been factored into the risk assessment and planned responses to other judgement areas and estimates. To take the uncertainty in the current economic environment into account we have capped the materiality at the prior year level, as set by the predecessor auditor, and not increased it in line with the increase in the underlying benchmark.

6.2 Performance Materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the Society's overall control environment;
- The low number of uncorrected misstatements identified in prior periods; and
- That this is our first year of performing the audit.



6.3 Error reporting threshold

We agreed with the Board Audit & Compliance Committee that we would report to the Committee all audit differences in excess of £18K (2019: £18K), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit & Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the Society and its environment including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment

We took a controls reliance approach over the following business cycles for the Society:

- Residential mortgage lending
- Customer deposits

Our approach in relation to the Society's IT systems

We took a controls reliance approach over the following IT systems as being key to the financial reporting processes in the Society:

- Core mortgage system
- Core savings system

Involving our IT specialists, we obtained an understanding of the relevant General IT controls ('GITCs') associated with the above mentioned systems. We tested the relevant GITCs by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence. We also tested key automated controls as identified during our walkthroughs of the business cycles described in the preceding section.

8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

9 Responsibilities of Directors

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

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

10 Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- Results of our enquiries of management and the Board Audit & Compliance Committee about their own identification and assessment of the risks of irregularities;
- Any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- The matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, prudential risk and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan loss provisioning and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context was the Building Society Act 1986.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included the regulations set by the Prudential Regulatory Authority relating to regulatory capital and liquidity requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified residential loan loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the Board Audit & Compliance Committee and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the Prudential Regulatory Authority and the Financial Conduct Authority;
- In addressing the risk of fraud in revenue recognition, assessing the judgements made within the effective interest rate and early redemption charges calculations; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on legal and other regulatory requirements

12 Opinions on other matters prescribed by the Building Societies Act 1986

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

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

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

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

In our opinion the information given in note 31 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

14 Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion;

- Adequate accounting records have not been kept by the Society; or
- The Society's financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15 Other matters which we are required to address

15.1 Audit tenure

Following the recommendation of the Board Audit and Compliance committee, we were appointed by the members on 29 April 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the year ending 31 December 2020.

15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16 Use of our report

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

David Heaton (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

5 March 2021

Income Statement

For the year ended 31 December 2020

	Note	2020	2019
		£000	£000
Interest receivable and similar income	2	15,195	14,916
Interest payable and similar charges	3	(5,534)	(5,912)
Net interest income		9,661	9,004
Fees and commissions receivable		92	121
Fees and commissions payable		(68)	(75)
Other income		330	366
Net income from financial instruments at fair value through profit and loss	4	(46)	1
Total income		9,969	9,417
Administrative expenses	5	(7,346)	(7,113)
Depreciation and amortisation	16,17	(237)	(262)
Operating profit before impairment losses and provisions		2,386	2,042
Impairment losses on loans and advances	15	39	132
Provisions for liabilities	24	(87)	81
Operating profit		2,338	2,255
Profit on disposal of tangible and intangible assets	16,17	5	7
Profit on ordinary activities before tax		2,343	2,262
Tax expense on ordinary activities	9	(460)	(419)
Profit for the financial year		1,883	1,843

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive income for the year are attributable to the members of the Society. The notes on pages 39 to 68 form part of these accounts.

Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020	2019
		£000	£000
Profit for the financial year		1,883	1,843
Other comprehensive income			
Items that will not be reclassified to the income statement			
Re-measurement of the net defined benefit liability	25	(143)	(44)
Tax on items that will not be re-classified to the income statement	9	27	8
Other comprehensive income for the period		(116)	(36)
Total comprehensive income for the period		1,767	1,807

Statement of Financial Position

As at 31 December 2020

	Note	2020 £000	2019 £000
Assets			
Liquid assets			
Cash in hand	10	346	378
Loans and advances to credit institutions	11	89,177	94,810
Debt securities	12	-	4,168
Derivative financial instruments	13	1	3
Loans and advances to customers	14	546,558	472,977
Tangible fixed assets	16	1,227	1,365
Intangible assets	17	100	119
Deferred tax assets	23	210	170
Other debtors	18	932	1,225
Total assets		638,551	575,215
Liabilities			
Shares	19	535,809	498,124
Amounts owed to credit institutions	20	50,313	21,840
Amounts owed to other customers	21	7,820	12,488
Derivative financial instruments	13	167	66
Other liabilities	22	699	1,196
Accruals and deferred income		373	98
Deferred tax liabilities	23	111	110
Provisions for liabilities	24	137	50
Retirement benefit obligations	25	880	768
Total liabilities		596,309	534,740
Reserves			
General reserves		42,242	40,475
Total reserves attributable to members of the Society		42,242	40,475
Total reserves and liabilities		638,551	575,215

The notes on pages 39 to 68 form part of these accounts.

These accounts were approved by the Board of Directors on 5 March 2021 and signed on its behalf:

J L Walker
Chairman

R M Pheasey
Chief Executive

N Walker
Finance Director

Statement of Changes in Members' Interests

As at the year ended 31 December 2020

	General Reserve 2020 £000	Available for Sale Reserve 2020 £000	Total 2020 £000
Balance at 1 January 2020	40,475	-	40,475
Total comprehensive income for the period			
Profit for the year	1,883	-	1,883
Other comprehensive income	(116)	-	(116)
Total comprehensive income for the period	1,767	-	1,767
Balance at 31 December 2020	42,242	-	42,242

	General Reserve 2019 £000	Available for Sale Reserve 2019 £000	Total 2019 £000
Balance at 1 January 2019	38,668	-	38,668
Total comprehensive income for the period			
Profit for the year	1,843	-	1,843
Other comprehensive income	(36)	-	(36)
Total comprehensive income for the period	1,807	-	1,807
Balance at 31 December 2019	40,475	-	40,475

Cash Flow Statement

For the year ended 31 December 2020

	2020	2019
	£000	£000
Cash flows from operating activities		
Profit before tax	2,343	2,262
Adjustments for		
Depreciation and amortisation	237	262
Profit on disposal of tangible fixed assets	(5)	(7)
Net (loss) on re-measurement of the net defined benefit liability	(143)	(44)
(Credit) on impairment on loans and advances to customers	(39)	(132)
Loans and advances written off net of recoveries	-	(379)
Total	2,393	1,962
Changes in operating assets and liabilities		
Decrease/(increase) in prepayments, accrued income and other assets	293	(114)
(Decrease)/increase in accruals, deferred income and other liabilities	(592)	408
Increase in loans and advances to customers	(73,445)	(53,254)
Increase in shares	38,271	64,523
Increase/(decrease) in amounts owed to credit institutions	28,500	(7,000)
(Decrease)/increase in amounts owed to other customers	(4,638)	1,234
Increase in retirement benefit obligation	112	12
Taxation paid	(652)	(444)
Net cash (used in)/generated by operating activities	(9,758)	7,327
Cash flows from investing activities		
Purchase of debt securities	(23,010)	(17,128)
Disposal of debt securities	27,178	12,960
Purchase of tangible fixed assets	(55)	(160)
Disposal of tangible fixed assets	7	13
Purchase of intangible assets	(27)	(50)
Net cash generated in investing activities	4,093	(4,365)
Net increase in cash and cash equivalents	(5,665)	2,962
Cash and cash equivalents at 1 January	95,188	92,226
Cash and cash equivalents at 31 December	89,523	95,188

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"). 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). All amounts in the annual accounts have been rounded to the nearest £1,000.
- 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.

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 1.15.

1.1 Going Concern

The financial statements are prepared on a going concern basis. The Directors have prepared forecasts for the Society, including its profitability, capital and liquidity position, and its arrangements to ensure operational resilience for a period in excess of 12 months from the date of approval of these financial statements. The Directors have also considered the effect upon the Society's business, financial position, liquidity and capital of more pessimistic, but plausible, scenarios on its business through stress testing and scenario analysis. Analysis of the outcomes support the conclusion that there are no material uncertainties that lead to significant doubt upon the Society's ability to continue as a going concern.

1.2 Changes in accounting policy

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

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. Effective lives are estimated using historic data and management judgement and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the income statement.

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. The Society also recognises a degree of future early repayment charge income based on experience.

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, with charities in receipt of donations listed in the Directors' Report.

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.

Notes to the Accounts (continued)

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) 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 retrospectively whether the actual results of regression analysis over the life of the portfolio demonstrate the portfolio is highly effective of a continuing basis within a range of 80 – 125% subject to relief under Amendments to FRS102 – Interest Rate Benchmark Reform during the period of uncertainty.

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 the fair value of the derivative has changed prior to entering into the hedge relationship, the movement will be amortised in the income statement on a straight-line basis over the remaining life of the derivative. 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 derivatives, as measured at amortised cost. Derivatives are measured at fair value through profit or loss.

Derecognition

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

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

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

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

a) Sterling Monetary Framework/Term Funding Scheme/Term Funding Scheme with additional incentives for SMEs

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.

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;

Notes to the Accounts (continued)

- 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 experience, external information and analysis 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 relevant experience or analysis for comparable assets. 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.

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.

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.

Covid-19

The FCA issued guidance on how they expect organisations to treat customers fairly during the Covid-19 pandemic. This involved the granting of short-term payment concessions up to 6 months duration without the same information provision and assessment outlined.

The Strategic Report and Credit Risk Section of Note 26 Financial Instruments provides details of forbearance at the Balance Sheet date and information of Covid-19 concessions in year, including the number and amount of the exposure at the balance sheet date.

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): Between 20 and 50 years.
- Buildings (leasehold): Over the term of the lease.
- Refurbishment of buildings and roofs: Between 10 and 20 years.
- Plant and equipment, fixtures and fittings: Between 3 and 10 years.

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

1.10 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 Colleague benefits

Defined contribution plans and other long-term colleague 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 colleagues.

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

Notes to the Accounts (continued)

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

In applying the Society's accounting policies, the Society makes estimates and applies judgements that can have a material effect on the reported amounts of assets and liabilities. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. No significant judgements were made in the year. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 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 £52,127 (2019: £56,306).
- 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 1.8 above and the Society and the Directors' assumptions on economic conditions, including the impact of Covid-19. 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 £42,311 (2019: £43,740). The accuracy of the provision is also dependent on the assumption for house prices and forced sale discounts. In the current period, a forward house price adjustment is included to reflect the risk of collateral values reducing. A 5% increase in house price discount would increase the provision by £177,626 (2019: £157,414). A 5% decrease in house price discount would reduce the provision by £146,443 (2019: £118,388).
- Fair Value of Financial Instruments: Derivative financial instruments are calculated by projecting expected future principal and interest cash flows, discounted using the prevailing London Interbank Offered Rate (LIBOR) or Sterling Overnight Indexed Average (SONIA) curve. The two yield curves are 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 and SONIA curve would change the net fair value of derivative financial instruments and related hedged items where appropriate by £136,916 (2019: £66,113).
- 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 yield curve will increase the obligation by £27,724 (2019: £30,842) at the year end.

2 Interest receivable and similar income

	2020	2019
	£000	£000
On loans fully secured on residential property	15,035	14,189
On other loans	45	92
On liquid assets	185	598
Other income	26	56
Net interest (expense) on derivatives	(96)	(19)
	15,195	14,916

Included within interest 2020 other income is income from available-for-sale assets of the Society in the form of Treasury Bills of £26,000 (2019: £56,000).

Included within interest income is £51,000 (2019: £74,000) in respect of interest income accrued on impaired loans two or more months in arrears.

3 Interest payable and similar charges

	2020	2019
	£000	£000
On shares held by individuals	5,372	5,574
On deposits and other borrowings	162	338
	5,534	5,912

4 Net (losses)/gains on derivative financial instruments

	2020	2019
	£000	£000
Derivatives in designated fair value hedge relationships	(97)	(66)
Adjustments to hedged items in fair value hedge relationships	47	76
Derivatives not in designated fair value hedge relationships	4	(9)
	(46)	1

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. During the year, the Society moved to use of derivatives linked to SONIA rather than LIBOR. Prior to 31 July 2020 additional volatility was experienced as SONIA derivatives were combined in the 3m LIBOR Hedge Relationship and, following de-designation and re-designation of the Hedge Relationship to SONIA, additional volatility was experienced as 3m LIBOR derivatives were combined with SONIA derivatives. This gain or loss will trend to zero over time for individual instruments but not the portfolio as a whole.

Notes to the Accounts (continued)

5 Administrative expenses

	2020 £000	2019 £000
Wages and salaries	3,036	2,980
Social security costs	293	274
Contributions to defined contribution plans	507	469
Expenses relating to defined benefit plans	23	20
	3,859	3,743
Other administrative expenses	3,487	3,370
	7,346	7,113

The remuneration of the external auditor, which is included within other administrative expenses above, is set out below (excluding VAT). The 2019 fee of £123,000 includes £113,000 in respect of the audit of the 2019 accounts and £10,000 in respect of the audit of the 2018 accounts:

	2020 £000	2019 £000
Audit of these annual accounts	120	123
Amounts received by the Society's auditor and its associates in respect of:		
Taxation compliance services	-	-
Other advisory services	-	-
	120	123

6 Colleague numbers

	2020 No.	2019 No.
Full Time	72	72
Part Time	35	30
	107	102
Principal Office	69	65
Branch Offices	38	37
	107	102

7 Directors' remuneration

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

Total Directors' emoluments for the year amounted to £618,018 (2019: £634,720).

8 Directors' loans and transactions

As at 31 December 2020, there were outstanding mortgage loans granted in the ordinary course of business to two Directors (2019: two) and no connected persons (2019: none), amounting in aggregate to £380,945 (2019: £364,416).

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.

9 Taxation

	2020 £000	2019 £000
Current tax		
Current tax on income for the period	476	427
Adjustments in respect of prior periods	(5)	4
Foreign tax relief/other relief	(31)	-
	440	431
Foreign tax suffered	31	-
Total current tax	471	431
Deferred tax (refer Note 23)		
Origination and reversal of timing differences	(7)	16
Adjustment in respect of previous periods	2	(26)
Change in tax rate	(6)	(2)
Total deferred tax	(11)	(12)
Total tax	460	419

	Current tax 2020 £000	Deferred tax 2020 £000	Total 2020 £000
Recognised in the Income Statement	471	(11)	460
Recognised in Other Comprehensive Income	-	(27)	(27)
Total tax	471	(38)	433

	Current tax 2019 £000	Deferred tax 2019 £000	Total 2019 £000
Recognised in the Income Statement	431	(12)	419
Recognised in Other Comprehensive Income	-	(8)	(8)
Total tax	431	(20)	411

Analysis of current tax payable in the Income Statement	2020 £000	2019 £000
Corporation tax	471	431
Total current tax	471	431

Notes to the Accounts (continued)

Reconciliation of effective tax rate	2020	2019
	£000	£000
Profit for the year	2,343	2,262
Total tax expense	460	419
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	445	430
Expenses not deductible for corporation tax purposes	24	17
Effect of change in tax rate	(6)	(2)
Reversal of non-deductible expenses	-	(17)
Overseas tax	-	12
Adjustment from previous periods	(3)	(21)
Total tax charge in the income statement	460	419

Current tax has been provided at the rate of 19%. A further reduction in the corporation tax rate to 17% was expected to become effective from April 2020, however, in March 2020 the Government announced the main corporation tax rate would remain at 19%. The deferred tax liability has been provided at the rate of 19% (2019: 17%) which is the rate applicable when the deferred tax liability is expected to crystallise.

10 Cash and cash equivalents

	2020	2019
	£000	£000
Cash in hand	346	378
Loans and advances to credit institutions (refer Note 11)	89,177	94,810
Cash and cash equivalents per the cash flow statements	89,523	95,188

11 Loans and advances to credit institutions

	2020	2019
	£000	£000
Repayable on demand		
Balances with the Bank of England	82,503	87,324
Loans and advances to credit institutions	6,674	7,486
	89,177	94,810
Total loans and advances to credit institutions	89,177	94,810
Total included within cash equivalents	89,177	94,810

12 Debt securities

	2020	2019
	£000	£000
Treasury bills	-	4,168
	-	4,168
Debt securities have remaining maturities as follows:		
In not more than one year	-	4,168
	-	4,168

Of this total £nil (2019: £nil) is attributable to fixed income debt securities.
Movements in debt securities during the year are summarised as follows:

	2020	2019
	£000	£000
At 1 January	4,168	-
Additions	23,010	17,128
Disposals and maturities	(27,178)	(12,960)
At 31 December	-	4,168

13 Derivative financial instruments

	Notional Principal	Fair Values Assets	Fair Values Liabilities
	2020	2020	2020
	£000	£000	£000
Derivatives designated as fair value hedges			
Interest rate swaps	41,500	-	160
Total derivatives designated as fair value hedges	41,500	-	160
Derivatives not designated in hedge relationships			
Interest rate swaps	7,000	1	7
Total derivatives not designated as fair value hedges	7,000	1	7

	Notional Principal	Fair Values Assets	Fair Values Liabilities
	2019	2019	2019
	£000	£000	£000
Derivatives designated as fair value hedges			
Interest rate swaps	17,500	3	57
Total derivatives designated as fair value hedges	17,500	3	57
Derivatives not designated in hedge relationships			
Interest rate swaps	6,000	-	9
Total derivatives not designated as fair value hedges	6,000	-	9

Notes to the Accounts (continued)

14 Loans and advances to customers

	2020	2019
	£000	£000
Loans fully secured on residential property	545,547	471,800
Loans fully secured on land	892	1,105
Fair value adjustment for hedged risk	119	72
	546,558	472,977
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
In not more than three months	3,575	2,961
In more than three months but not more than one year	9,784	8,576
In more than one year but not more than five years	86,533	72,871
In more than five years	447,146	389,088
	547,038	473,496
Less allowance for impairment (refer Note 15)	(480)	(519)
	546,558	472,977

The maturity analysis above is based on contractual maturity not behavioural or expected maturity.

At 31 December 2020, £174.2m (2019: £204.1m) 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
	2020	2020	2020
	£000	£000	£000
At 1 January 2020			
Individual impairment	44	21	65
Collective impairment	438	16	454
	482	37	519
Amounts written off during the year, net of recoveries			
Individual impairment	-	-	-
Collective impairment	-	-	-
	-	-	-
Income statement			
Impairment losses on loans and advances			
Individual impairment	(40)	22	(18)
Collective impairment	(9)	(12)	(21)
	(49)	10	(39)
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 2020			
Individual impairment	4	43	47
Collective impairment	429	4	433
	433	47	480

	Loans fully secured on residential property	Loans fully secured on land	Total
	2019	2019	2019
	£000	£000	£000
At 1 January 2019			
Individual impairment	14	525	539
Collective impairment	475	16	491
	489	541	1,030
Amounts written off during the year, net of recoveries			
Individual impairment	-	(379)	(379)
Collective impairment	-	-	-
	-	(379)	(379)
Income statement			
Impairment losses on loans and advances			
Individual impairment	30	1	31
Collective impairment	(37)	-	(37)
	(7)	1	(6)
Income statement			
Adjustment to impairment losses on loans and advances resulting from recoveries during the year			
Individual impairment	-	(126)	(126)
Collective impairment	-	-	-
Charge for the year	-	(126)	(126)
At 31 December 2019			
Individual impairment	44	21	65
Collective impairment	438	16	454
	482	37	519

Notes to the Accounts (continued)

16 Tangible fixed assets

	Land and buildings	Equipment, fixtures fittings and vehicles	Total
	2020	2020	2020
	£000	£000	£000
Cost			
Balance at 1 January 2020	1,106	2,153	3,259
Acquisitions	-	55	55
Disposals	-	(20)	(20)
Balance at 31 December 2020	1,106	2,188	3,294
Depreciation and impairment			
Balance at 1 January 2020	360	1,534	1,894
Depreciation charge for the year	17	174	191
On disposals	-	(18)	(18)
Balance at 31 December 2020	377	1,690	2,067
Net book value			
Balance at 1 January 2020	746	619	1,365
Balance at 31 December 2020	729	498	1,227

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

	2020	2019
	£000	£000
The net book value of land and buildings comprises:		
Freehold	729	746
	729	746

The above land and buildings are occupied for own use.

17 Intangible assets

	Purchased Software
	2020
	£000
Cost	
Balance at 1 January 2020	875
Acquisitions	27
Balance at 31 December 2020	902
Amortisation	
Balance at 1 January 2020	756
Amortisation charge for the year	46
Written off in the year	-
Balance at 31 December 2020	802
Net book value	
Balance at 1 January 2020	119
Balance at 31 December 2020	100

Intangible assets are included at cost.

18 Other debtors

	2020	2019
	£000	£000
Other debtors	7	194
Prepayments and accrued income	925	1,031
	932	1,225

19 Shares

	2020	2019
	£000	£000
Held by individuals	535,617	498,009
Other shares	192	115
	535,809	498,124

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

	2020	2019
Accrued interest	2,341	2,927
On demand	206,996	182,715
In not more than three months	177,634	177,562
In more than three months but not more than one year	87,507	87,766
In more than one year but not more than five years	61,331	45,295
In more than five years	-	1,859
	535,809	498,124

Notes to the Accounts (continued)

20 Amounts owed to credit institutions

	2020 £000	2019 £000
Amounts owed to credit institutions are repayable from the date of the statement of financial position as follows:		
Accrued interest	13	40
In not more than three months	-	-
In more than three months but not more than one year	25,800	7,000
In more than one year but not more than five years	24,500	14,800
	50,313	21,840

21 Amounts owed to other customers

	2020 £000	2019 £000
Amounts owed to other customers are repayable from the date of the statement of financial position as follows:		
Accrued interest	37	67
On demand	1,481	1,663
In not more than three months	3,317	1,757
In more than three months but not more than one year	2,985	6,301
In more than one year but not more than five years	-	2,700
	7,820	12,488

22 Other liabilities

	2020 £000	2019 £000
Corporation tax	229	410
Payments to insurance companies	-	2
Other creditors	470	784
	699	1,196

23 Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Accelerated capital allowances	-	-	111	110	(111)	(110)
FRS 102 transitional adjustment	35	39	-	-	35	39
Colleague benefits	175	131	-	-	175	131
	210	170	111	110	99	60

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

24 Provisions

	2020 £000	2019 £000
At 1 January	50	137
Additions/adjustments	137	20
Provision utilised	-	(6)
Recovered	(50)	(101)
At 31 December	137	50

Others

Provisions have been made in respect of the following 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. Following resolution of all claims with the Society and the Financial Ombudsman Service the balance of provision outstanding has been recovered in year.

Software licencing

At the balance sheet date, an external software licencing audit had revealed a potential situation where licencing may have been insufficient. The Society does not accept the findings of the audit and plans to challenge the findings with the supplier. As a result, the amount and timing of any outflows remains uncertain but in the event a transfer of benefits does take place this is anticipated to take place within the year.

Potential claim

At the balance sheet date, the Society had received notice of a potential claim from a former colleague of the Society. The amount and timing of any outflows on respect of this obligation remain uncertain but in the event a transfer does take place it is anticipated to take place within the year.

Further details and amounts of both the software licencing and potential claim have not been disclosed as this may be prejudicial to the outcome.

25 Colleague 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.

	2020 £000
Defined benefit obligation	880
Net pension liability	880

Movement in present value of defined benefit obligation

	2020 £000
At 1 January	768
Interest expense	23
Re-measurement: actuarial gains	143
Benefits paid	(54)
At 31 December	880

Notes to the Accounts (continued)

Principal actuarial assumptions

	2020	2019
	%	%
Discount rate	1.00	1.66
Future pension increases	2.86	2.86

The obligation is measured internally by the Directors on at least an annual basis using the following inputs, the calculation method having been revised from an average life expectancy to probability-based life expectancy in year:

- iBoxx AA Sterling Corporate Non-Financial Bond Index (2019: iBoxx AA Sterling Non-Financial Bond Index) for the closest approximation of the average duration of the obligation, currently 10 years).
- ONS National Population Projections Lifetable (2018 Based) Cohort Life Expectancy (2019: ONS Cohort Life Expectancy Tables (2018 Based)) – England and Wales (Higher Life Expectancy Variant)
- 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 colleagues 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 £507,000 (2019: £470,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

26 Financial Instruments

A 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 opposite analyse the Society's assets and liabilities by financial classification:

Carrying values by Category at 31 December 2020	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	-	346	-	-	-	346
Loans and advances to credit institutions	89,177	-	-	-	-	89,177
Debt securities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	1	1
Loans and advances to customers	546,558	-	-	-	-	546,558
Non financial	-	2,469	-	-	-	2,469
Total assets	635,735	2,815	-	-	1	638,551
Liabilities						
Shares	-	535,809	-	-	-	535,809
Amounts owed to credit institutions	-	50,313	-	-	-	50,313
Amounts owed to other customers	-	7,820	-	-	-	7,820
Derivative financial instruments	-	-	-	160	7	167
Non financial	-	44,442	-	-	-	44,442
Total liabilities	-	638,384	-	160	7	638,551

Carrying values by category at 31 December 2019	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	-	378	-	-	-	378
Loans and advances to credit institutions	94,810	-	-	-	-	94,810
Debt securities	-	-	4,168	-	-	4,168
Derivative financial instruments	-	-	-	3	-	3
Loans and advances to customers	472,977	-	-	-	-	472,977
Non financial	-	2,879	-	-	-	2,879
Total assets	567,787	3,257	4,168	3	-	575,215
Liabilities						
Shares	-	498,124	-	-	-	498,124
Amounts owed to credit institutions	-	21,840	-	-	-	21,840
Amounts owed to other customers	-	12,488	-	-	-	12,488
Derivative financial instruments	-	-	-	57	9	66
Non financial	-	42,697	-	-	-	42,697
Total liabilities	-	575,149	-	57	9	575,215

At the year end, the Society had loan commitments of £25.1m (2019: £26.8m) measured at cost.

Notes to the Accounts (continued)

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 (i.e. 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.

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 2020					
Financial assets					
Available for sale					
Debt securities	12	-	-	-	-
Derivative financial instruments					
Interest Rate SWAPs	13	-	1	-	1
		-	1	-	1
Financial liabilities					
Derivative financial instruments					
Interest Rate SWAPs	13	-	167	-	167
		-	167	-	167
At 31 December 2019					
Financial assets					
Available for sale					
Debt securities	12	4,168	-	-	4,168
Derivative financial instruments					
Interest Rate SWAPs	13	-	3	-	3
		4,168	3	-	4,171
Financial liabilities					
Derivative financial instruments					
Interest Rate SWAPs	13	-	66	-	66
		-	66	-	66

27 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 the use of strict mandates and both counterparty risk assessment and monitoring.

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

	2020	2019
	£000	£000
Cash in hand	346	378
Loans and advances to credit institutions	89,177	94,810
Debt securities	-	4,168
Loans and advances to customers	546,558	472,977
Total statement of financial position exposure	636,081	572,333
Off balance sheet exposure: Mortgage commitments	25,061	26,789
	661,142	599,122

Details on collateral held as security that mitigate the Society's exposure to credit risk are provided on pages 58 to 59. 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	2020		2019	
	£000	%	£000	%
Residential				
Owner Occupied	395,240	72.46	342,725	72.61
Buy to Let	150,205	27.54	129,315	27.39
	545,445	100.00	472,040	100.00
Impairment and EIR adjustments	221		(168)	
Total net exposure	545,666		471,872	

Notes to the Accounts (continued)

The Society has 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	2020		2019	
	£000	%	£000	%
North	16,310	2.99	15,115	3.20
Yorkshire & Humberside	36,209	6.64	32,828	6.95
North West	70,362	12.90	75,221	15.94
East Midlands	28,005	5.14	26,262	5.56
West Midlands	34,794	6.38	29,808	6.31
East Anglia	17,738	3.25	15,142	3.21
South West	54,930	10.07	48,345	10.24
South East	143,014	26.22	121,393	25.72
Greater London	102,002	18.70	78,879	16.72
Wales	21,011	3.85	17,488	3.70
Guernsey	21,070	3.86	11,559	2.45
	545,445	100.00	472,040	100.00

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

Indexed Loan to Value Analysis	2020		2019	
	£000	%	£000	%
<=50%	310,663	56.95	253,014	53.60
>50% <=70%	170,348	31.23	156,923	33.24
>70% <=80%	28,349	5.20	35,747	7.57
>80% <=90%	35,922	6.59	15,894	3.37
>90% <=100%	163	0.03	10,462	2.22
	545,445	100.00	472,040	100.00

In respect of residential property, collateral values are adjusted quarterly according to the Halifax Regional Historic House Price Index (non-seasonally adjusted) administered by IHS Markit to derive the indexed valuation at the reporting date. At the reporting date the average indexed loan to value of residential property was 34.3% (2019: 35.0%).

The table below provides by payment due status.

Indexed Loan to Value Analysis by Past Due/Impairment Status	2020		2019	
	£000	%	£000	%
Neither past due nor individually impaired	542,820	99.52	469,600	99.48
Past due but not impaired	2,494	0.46	1,601	0.34
<=70%	2,494	0.46	1,601	0.34
>70%	-	-	-	-
In possession	-	-	-	-
Impaired	131	0.02	839	0.18
<=70%	131	0.02	699	0.15
>70%	-	-	140	0.03
In possession	-	-	-	-
	545,445	100.00	472,040	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	2020		2019	
	£000	%	£000	%
Commercial				
Owner Occupied	619	65.92	738	64.62
Investment	320	34.08	404	35.38
	939	100.00	1,142	100.00
Impairment and EIR adjustments	(47)		(37)	
Total net exposure	892		1,105	

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

Geographical Analysis	2020		2019	
	£000	%	£000	%
North	-	-	162	14.19
Yorkshire & Humberside	320	34.08	320	28.02
North West	619	65.92	660	57.79
	939	100.00	1,142	100.00

Notes to the Accounts (continued)

The table below outlines the loan to value of exposures.

Loan to Value Analysis	2020 £000	2020 %	2019 £000	2019 %
<=50%	220	23.43	419	36.69
>50% <=70%	399	42.49	403	35.29
>70% <=80%	-	-	-	-
>80% <=90%	320	34.08	320	28.02
>90% <=100%	-	-	-	-
>100%	-	-	-	-
	939	100.00	1,142	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.

Loan to Value Analysis by Past Due/Impairment Status	2020 £000	2020 %	2019 £000	2019 %
Neither past due nor individually impaired	540	57.51	739	64.71
Past due but not impaired	-	-	-	-
<=70%	-	-	-	-
>70%	-	-	-	-
In possession	-	-	-	-
Impaired	399	42.49	403	35.29
<=70%	399	42.49	403	35.29
>70%	-	-	-	-
In possession	-	-	-	-
	939	100.00	1,142	100.00

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.

	2020				2019			
	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	542,820	99.52	540	57.51	469,600	99.48	739	41.97
Past due but not impaired	2,494	0.46	-	-	1,601	0.34	-	-
Past due less than 2 months but not impaired	811	0.15	-	-	1,106	0.23	-	-
Past due =>2 but <3 months	377	0.07	-	-	373	0.08	-	-
Past due =>3 but <6 months	883	0.16	-	-	8	-	-	-
Past due =>6 but <12 months	370	0.07	-	-	24	0.01	-	-
Past due over 12 months	53	0.01	-	-	90	0.02	-	-
Possessions	-	-	-	-	-	-	-	-
Impaired	131	0.02	399	42.49	839	0.18	403	35.29
Not past due	-	-	399	42.49	-	-	403	35.29
Past due less than 2 months	-	-	-	-	-	-	-	-
Past due =>2 but <3 months	-	-	-	-	381	0.08	-	-
Past due =>3 but <6 months	131	0.02	-	-	274	0.06	-	-
Past due =>6 but <12 months	-	-	-	-	184	0.04	-	-
Past due over 12 months	-	-	-	-	-	-	-	-
Possessions	-	-	-	-	-	-	-	-
	545,445	100.00	939		472,040	100.00	1,142	100.00
Allowance for impairment								
Individual	4		43		44		21	
Collective	429		4		438		16	
Total allowance for impairment	433		47		482		37	
Value of Collateral held	Indexed	Unindexed		Unindexed	Indexed	Unindexed		Unindexed
Neither past due nor impaired	1,584,277	1,418,691		1,505	1,342,224	1,208,412		2,170
Past due but not impaired	6,382	5,004		-	5,000	3,864		-
Impaired	198	180		586	1,240	1,190		586
	1,590,857	1,423,875		2,091	1,348,464	1,213,466		2,756

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) administered by IHS Markit 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 £2.494m (2019: £1.601m) and £0.131m (2019: £0.839m). In respect of mortgages secured on commercial property, loans past due but not impaired and

Notes to the Accounts (continued)

loans impaired respectively, the amount of collateral, this being the lower of the outstanding balance of the loan or the property, was nil (2019: nil) and £0.399m (2019: £0.403m).

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.

During 2020, the Society has offered payment concessions in the form of payment holidays, and latterly payment deferrals, customers whose financial circumstances have been adversely affected by the Covid-19 pandemic. Details of the numbers of concessions granted in year, and the balances of those loans still existing at the balance sheet date, together with details of those payment deferrals which remain active are detailed below.

	2020				2019			
	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	-	-	-	-	110	1	-	-
Arrangement to clear outstanding arrears	-	-	-	-	-	-	-	-
Extension of the mortgage term	-	-	-	-	-	-	-	-
Capitalisation of arrears	88	1	-	-	-	-	-	-
Of which:								
Amount of individual impairment provisions	-	-	-	-	-	-	-	-

		2020	2019
Customers granted a Covid-19 concession in year	41,910	265	-
Customers with a Covid-19 concession active at year end	4,021	21	-

28 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 5 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 5 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 Risk Committee.

Maturity analysis for financial assets and liabilities

The tables opposite 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 2020	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	346	-	-	-	-	346
Loans and advances to credit institutions	89,177	-	-	-	-	89,177
Debt securities	-	-	-	-	-	-
Derivative financial instruments	-	1	-	-	-	1
Loans and advances to customers	535	3,039	9,352	86,486	447,146	546,558
Total financial assets	90,058	3,040	9,352	86,486	447,146	636,082
Financial liabilities						
Shares	207,369	178,714	87,998	61,728	-	535,809
Amounts owed to credit institutions	-	-	25,810	24,503	-	50,313
Amounts owed to other customers	1,482	3,340	2,998	-	-	7,820
Derivative financial instruments	-	24	77	66	-	167
Total financial liabilities	208,851	182,078	116,883	86,297	-	594,109
Net liquidity gap	(118,793)	(178,038)	(107,531)	189	447,146	41,973

At 31 December 2019	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash in hand	378	-	-	-	-	378
Loans and advances to credit institutions	94,810	-	-	-	-	94,810
Debt securities	-	1,178	2,990	-	-	4,168
Derivative financial instruments	-	1	2	-	-	3
Loans and advances to customers	242	2,719	8,122	72,806	389,088	472,977
Total financial assets	95,430	3,898	11,114	72,806	389,088	572,336
Financial liabilities						
Shares	183,553	178,663	88,354	45,597	1,957	498,124
Amounts owed to credit institutions	-	-	7,011	14,829	-	21,840
Amounts owed to other customers	1,666	1,769	6,326	2,727	-	12,488
Derivative financial instruments	-	9	29	28	-	66
Total financial liabilities	185,219	180,441	101,720	63,181	1,957	532,518
Net liquidity gap	(89,789)	(176,543)	(90,606)	9,625	387,131	39,818

Notes to the Accounts (continued)

29 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 across Economic Value, Earnings and Basis Risk. In addition to this a range of variations in different interest rate bases outside the control of the Society are stressed, including LIBOR, SONIA 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	
	2020	2019
	£000	£000
Sensitivity of reported reserves to interest rate movement (economic value)		
At 31 December	(306)	(90)
Average for the period	(86)	(41)
Maximum for the period	309	512
Minimum for the period	(564)	(621)

	+100bps Parallel Increase	
	2020	2019
	£000	£000
Sensitivity of projected net interest income to interest rate movement (earnings)		
At 31 December	466	453
Average for the period	457	461
Maximum for the period	576	543
Minimum for the period	368	368

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, further detail being provided in Note 1.7.

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

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Instrument type				
Interest rate swap	-	160	3	57
	-	160	3	57

Uncertainty arising from Interbank Offered Rate (IBOR) Reform

At the balance sheet date, the Society's hedge relationships are exposed to movements in the Benchmark Interest Rate, currently SONIA, the Society having de-designated the previous 3m LIBOR hedge relationship and re-designated a SONIA hedge relationship during the year.

At 31 December 2020 and 31 December 2019, the Society held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk:

Interest Rate Risk	Maturity 2020		Maturity 2019	
Hedge of loans and advances	< 1 year	1 - 5 years	< 1 year	1 – 5 years
Nominal amount (£000)	7,500	41,000	10,000	7,500
Average Interest Rate (%)	1.02%	0.10%	0.96%	1.02%

The Society is managing the process of transition to new benchmark rates by ceasing to enter into new LIBOR swaps and instead utilising SONIA swaps. The existing LIBOR swap exposure of £7.500m (2019: £17.500m) matures during 2021, with no contracts maturing beyond 31 December 2021. All other contracts represent SONIA swap exposure of £41.000m (2019: nil). No significant assumptions or judgements have been made in applying the relevant paragraphs of IAS 39 relating to Interest Rate Benchmark Reform.

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 CRD IV and related requirements set by the Prudential Regulation Authority.

The capital requirements of the Society are planned as part of the 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 quarterly, 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.

30 Commitments

Contractual commitments to purchase tangible fixed assets at the year-end were £nil (2019: £nil).

The contractual commitments for the acquisition of intangible assets at the year-end were £nil (2019: £nil).

Notes to the Accounts (continued)

31 Country-by-country reporting

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

The annual reporting requirements as at 31 December 2020 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 operates mainly in the United Kingdom. During 2018 the Society commenced lending to borrowers in Guernsey via a Branch Operating Structure, but this business is not yet material.
Turnover	£9.968m
Number of colleagues	107 of which 72 full time and 35 part time per Note 6
Profit before tax	£2.342m
Tax on profit	£0.652m per Cashflow Statement
Public subsidies received	None

32 Related Parties

Identity of related parties

The Society considers its key management personnel to be its Directors.

Key Management Compensation

Key management personnel compensation is as detailed within the Directors' Remuneration Report.

Transactions with key management personnel

Key management personnel and their close family members have undertaken the following transactions with the Society on terms on offer to members.

At 31 December 2020 the Society had mortgage loans to Directors and close family members of £380,945 across 2 accounts (2019: 364,416 across 2 accounts).

At 31 December 2020 the Society had savings balances from Directors and close family members of £63,839 (2019: £98,489).

33 Leases

The future minimum leases under non-cancellable operating leases for land and buildings for each of the following periods are:

	2020	2019
	£000	£000
Less than 1 year	80	95
2 to 5 years	123	199
After 5 years	-	4
Total	203	298

Annual Business Statement

For the year ended 31 December 2020

1 Statutory percentages

	2020	Statutory limit
	%	%
Lending Limit		
Proportion of business assets not in the form of loans secured on residential property	0.37	25
Funding Limit		
Proportion of shares and borrowings not in the form of shares held by individuals	9.79	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

	2020	2019
	%	%
As a percentage of shares and borrowings		
Gross capital	7.11	7.60
Free capital	6.96	7.41
Liquid assets	15.07	18.66
As a percentage of mean total assets		
Profit after taxation	0.31	0.34
Management expenses	1.25	1.35
Management expenses net of other income	1.19	1.28

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 position.

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 position.

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

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.

Annual Business Statement (continued)

For the year ended 31 December 2020

3 Information relating to the Directors as at 31 December 2020

Name and Occupation	Date of Birth	Date of Appointment	Other Directorships
J L Walker ACIB Director & Chairman	26 April 1958	1 March 2018	Alliance Fund Managers Alliance Fund Managers Nominees Limited AFM Business Growth Limited AFM R101 Ventures Limited AFM Small Firms Fund Limited AFM Merseyside Ventured (Limited) AFM Seed Fund Limited BCE Fund Managers (Merseyside) Limited Spark TMT (Carried Interest) LLP AFM Merseyside Mezzanine Limited Fruugo.com LTD Global Autocare Holding Limited Worldwide Recruitment Solutions Limited
M R Gray BA (Hons) Director	31 July 1962	1 June 2018	
A M Hope BSc (Hons) FCA Director	28 February 1957	1 October 2010	1855 Station Building Limited Eureka! The National Children's Museum
M L Ibbs BA (Hons) Director	12 July 1963	1 April 2014	The Ombudsman Services Limited
C McDonald BSc (Hons) Director	6 November 1962	1 June 2018	Brathay Trust
R M Pheasey BSc (Hons) Building Society Chief Executive & Director	12 June 1967	22 December 2008	Nelson and Colne College Group 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	29 November 1970	22 December 2008	Northern Star Academies Trust

Documents may be served on the above named Directors, either individually or collectively, marked 'Private and Confidential' c/o Deloitte LLP, The Hanover Building, Corporation Street, Manchester, M4 4AH.

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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