Annual Report & Accounts 2020

Furness Building Society

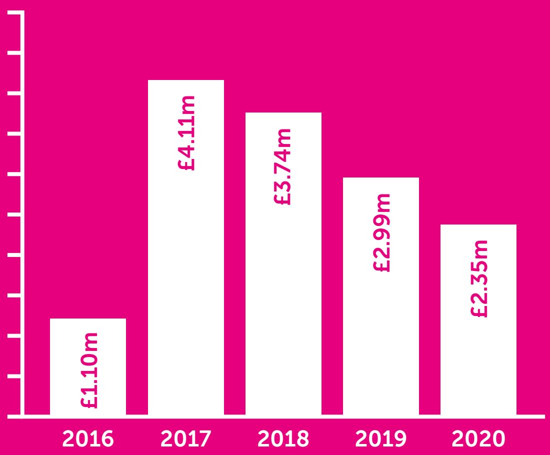
Always with your interest at heart

Contents

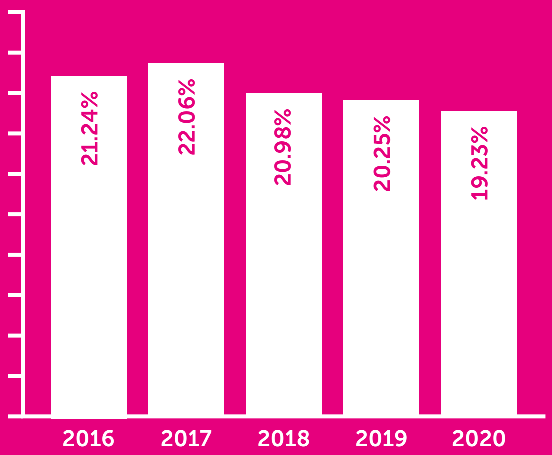
Performance Summary

Financial Strength

Profit before tax

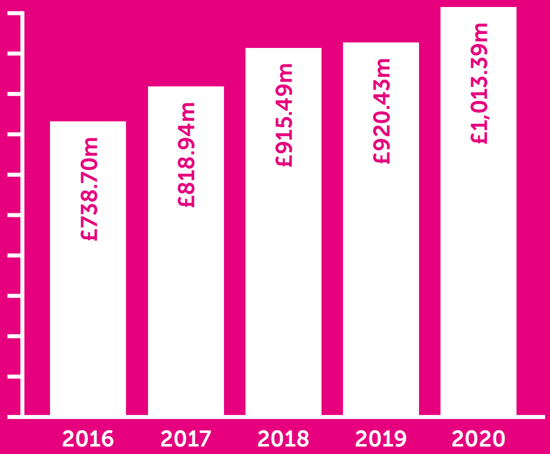


Total Capital Ratio

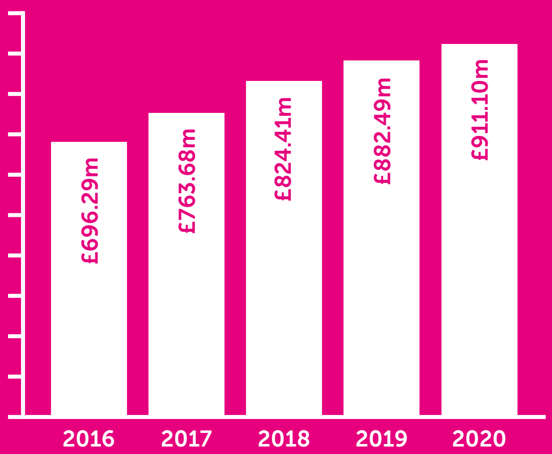


Business Summary

Retail Share and Deposit Balances



Mortgage Balances



01

Chairman's Report

At the heart of our strategy is a commitment to offer our people an enjoyable and rewarding place to work.

A word of thanks to my colleagues

Introducing
Graham Berville

It's been a highly unusual year, of that I'm sure we'll all agree. But one thing that hasn't altered for us, amidst a year of continuous and remarkable change, is that at the heart of our strategy is a commitment to offer our people an enjoyable and rewarding place to work in order to build a stronger Society for our members' benefit.

We're fortunate that in 2019 we'd already made great strides in our efforts to provide our teams with flexibility in their choice of working environment. Our ability to offer remote working had substantially improved due to our continued investment in our IT infrastructure and technology and this stood us in great stead when the country was placed into lockdown on 23 March 2020.

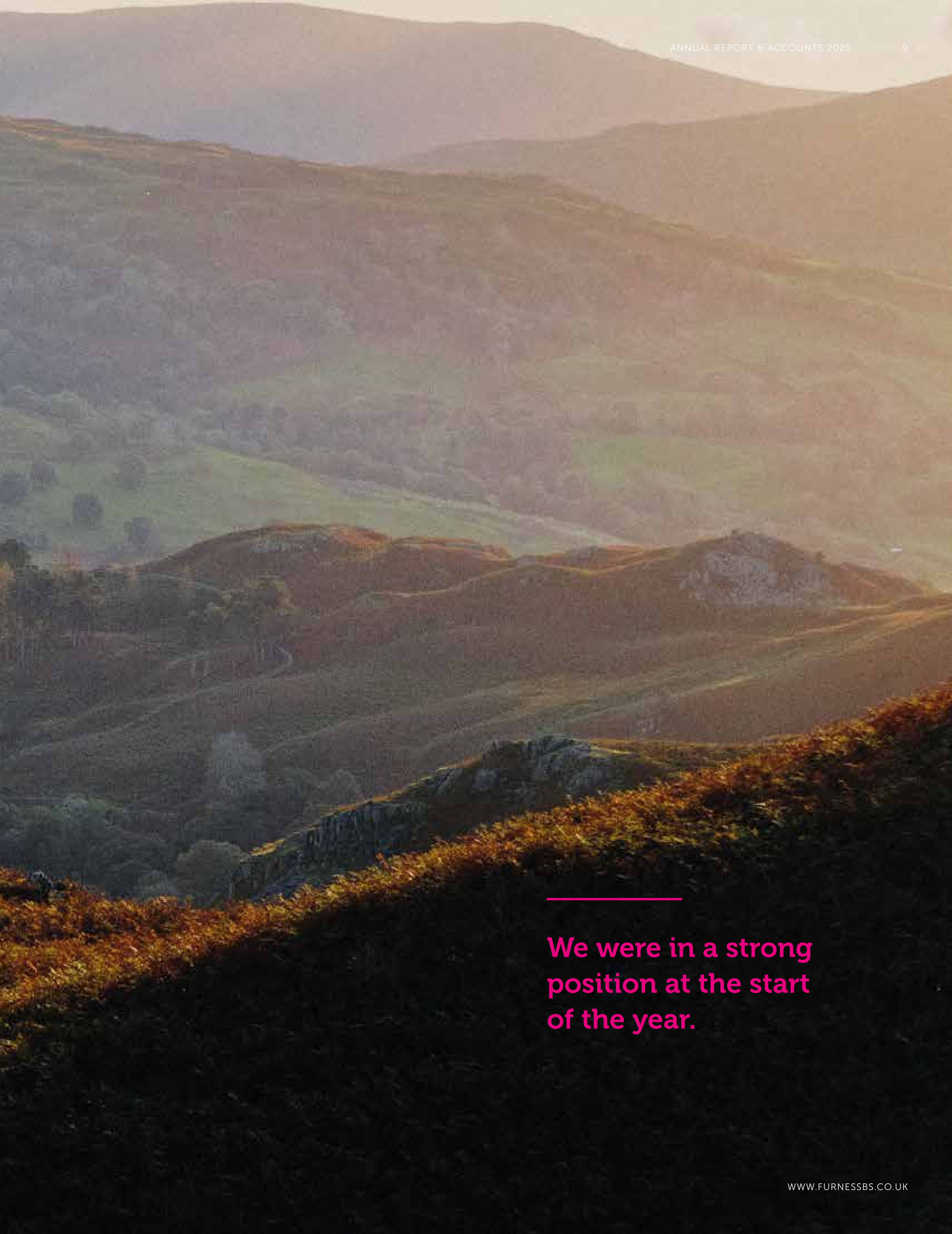
Our team of talented and hardworking individuals is the cornerstone to our successful business and I'm grateful to all my colleagues, as well as all of our loyal members, for their support during these very difficult times.

2020 Foundations Solid ground at the dawn of a new decade

When the new year and new decade dawned in January, our Society was in good shape. We'd gained momentum in 2019 owing to the modernisation programme we've been pursuing for the past couple of years. This included moving our head office operations to a new, modern and open plan facility at Emlyn Hughes House in Barrow.

Commercially, over the first quarter of the year, we were demonstrating a solid performance across the metrics we use to measure our success, which you can see in our Directors' Report on page 25. We had a solid foundation at the start of the year and were well prepared through our financial, capital and liquidity planning to respond well to potential challenges that might come our way.

The pandemic impacted people, businesses and communities in a number of ways and we had the capacity to deal with the stress on our organisation. However, our financial performance was adversely impacted by the challenges of the coronavirus pandemic and our objectives for the year were not met, with a decline in some areas such as profitability and margin. Further details of the key performance indicators are described in the Strategic Report on page 17.



We were in a strong position at the start of the year.

I continue to be proud of our ability to handle the ever-changing circumstances.

A financial reward has been made to all colleagues in recognition of their hard work throughout the year.

Covid-19 Crisis

A swift and decisive response

We had of course been monitoring the Covid-19 situation since the start of the year, and making our own preparations accordingly. We were ready to respond when on 23 March 2020 the majority of the country was asked to stay at home.

At Furness, we immediately turned all of our attention to the safety and needs of our members and colleagues. It was absolutely imperative to us that members maintained full and straightforward access to their savings and mortgages. Many of our strategic development projects were paused to enable us to concentrate our efforts where they were needed most – working hard to maintain business as usual for our members.

It was and continues to be an extremely challenging time but I am proud of our ability to handle the ever-changing circumstances. The strong leadership demonstrated by our Board and Senior Management team and their ability to take decisive action, as well as the efforts of all our colleagues across the business, has helped us to maintain operational continuity throughout this difficult period.

Our People

Working together to keep business moving

It is the effort of all our colleagues that has kept our business running smoothly during this crisis. Those on our front line were committed to keeping our branches open and accessible, albeit on reduced hours, and we drew on the support of our branch teams to identify vulnerable members and support them remotely.

Meanwhile, those usually office-based had to very quickly adapt to a new way of working, now operating out of home offices, kitchens and bedrooms with new systems and processes, which have kept our operations moving effectively. This has of course generated increased risks – from remote operational control to the mental health impact of isolated working. We have addressed these by investing in new IT and other home office equipment, in Covid-related safety systems for offices and branches and implementing new procedures and methods of communication to improve the working environment and infrastructure for all.

Our Executive and Senior Management bonuses were not triggered in 2020 due to the unusual circumstances in which we have operated. However, a financial reward has been made to all colleagues in recognition of their hard work throughout the year.

The Directors' Remuneration Report can be found on page 60.

We drew on the support of our branch teams to identify vulnerable members and support them remotely.

Our Members
Caring for our members in a crisis

As well as keeping all our branches open, online and remote services were increased and improved to reflect the changing needs of our members, as we all faced new restrictions in our daily lives. We'll continue to respond to our members changing and evolving needs.

Mortgage payment deferrals provided short-term cash flow relief for those that needed it and around 1,200 of our mortgage members took advantage of this. This was particularly important at the outset of the crisis to help reduce financial stress before the furlough scheme was introduced and the vast majority of these members restarted their payments after a short period.

We've also passed on all of the Bank of England interest rate cuts to those mortgage members with relevant products. We've done so with recognition of the impact on our financial performance as it was the right thing to do. At the same time, we looked to limit the rate reductions as far as we could for savers. The Bank of England base rate is now at its lowest for more than 300 years and we have done our best to ensure that all our savers receive a fair rate of return.

Throughout the pandemic we have continued to offer new mortgages and savings to members and offered new ways for members to manage their accounts. We wanted to support our local economy at a time of great uncertainty. To help house buyers we offered members in our heartland a high loan-to-value (LTV) mortgage product, one that was difficult to obtain elsewhere in the country. Through prudent lending criteria and our experienced Underwriting team we were able to let members that could afford to do so, to take a new mortgage and buy their new home. Keeping property transactions moving was critical so we adopted a remote valuation process during the initial lockdown period which enabled our members' home sales and purchases to continue.

We're aware that many members continue to encounter difficulty as a result of the crisis and we continue to support them.

As a mutual building society, our long heritage and commitment to current and future members provides security and stability during the crisis.

We've prioritised the work we need to deliver in order to trade successfully and effectively in a very different world to the one we operated within in 2019.

Financial Position
Maintaining financial stability

We revised our Corporate Plan during the year as it became clear that we would not meet the objectives set out in January. Despite the backdrop of the crisis we delivered a solid trading performance in 2020, although we haven't seen the financial growth of previous years.

Our margin has been impacted by the decisions we took following the base rate reductions from the Bank of England. The net effect of these rate cuts, combined with the need to increase impairment provisions as a result of the greater credit risk arising from our mortgage portfolio as well as the additional operational and Covid-related costs required to ensure the safety of our people and members, has resulted in a reduction in profits, when compared to 2019. Our plans for 2021 forecast the margin will come under further pressure.

Savings balances have shown significant growth in 2020, whilst mortgage balances have also grown and we're in a solid position thanks to our strategic focus and management during the crisis.

However, we must acknowledge that this remains an uncertain time for the sector. We're grateful for the support the sector has received from the Bank of England through the extension to the Term Funding Scheme (TFS) and the release of capital buffers which helped us to trade with confidence during 2020. As a mutual building society, our long heritage and commitment to current and future members provides stability and will enable us to form part of the solution to the crisis.

Strategic Priorities
Adapting for long-term benefit

In many ways, the crisis has accelerated innovations and efficiencies that we were already working towards. Several of the changes we've been compelled to make in response to the crisis, will undoubtedly continue once we return to a more usual operating model. More members need us in different ways and want to use new ways to access our services and we will continue to work to improve these remote services.

This can perhaps most notably be seen in our decision to close our agency distribution network, which comprises other businesses that offer a counter service for our savings members. Many of these agents have been valued partners to us for many years but many were forced to close in March and some were unable to reopen. Fewer of our members utilised this service and placed greater value in accessing us in other ways. Resources are now being redirected to serving members through our branch network, online and on the telephone.

We've prioritised the work we need to deliver in order to trade successfully and effectively in a very different world to the one we operated within in 2019. The crisis has impacted us as it has most businesses and unfortunately we didn't achieve everything we set out to do at the start of the year as a result. However, we have adapted by accelerating investment in our digital and remote distribution channels for the purposes of serving, acquiring and retaining more members. In response to the increased cyber risk arising from a stronger digital output, we're also continuing to develop our IT infrastructure, security and resilience for this new world.

We've come together as an organisation and worked alongside our peers.

Economic Recovery
Collaborative partners in a crisis

The role we're taking in the Government's plans for Covid-19 recovery, as part of the wider retail banking sector, is a challenge and source of pride. Our trade bodies, the Building Society Association and UK Finance have been extremely supportive and helped us navigate the many changes we've had to deal with at pace.

We, in turn, have played our part in the UK's response to the pandemic and will continue to do so in the months and years ahead. Our Board has met more frequently throughout the course of the year - weekly during the first peak of the pandemic. This has enabled us to draw on our Board members' collective experience to guide us carefully and confidently through the crisis.

We've come together as an organisation and worked alongside our peers and this will serve to support the UK economy in the short and long-term.

Conclusion
Looking forward

I'm pleased with our response to the crisis and the progress we continue to make in uncharted territory – we adapted quickly to create the operating plan we needed to navigate the ongoing changing circumstances.

But now is not the time to be complacent. The UK remains in the midst of the crisis and there are generally expected to be more uncertainties ahead in our recovery which cause financial stress to continue to be felt by consumers.

However, our business was well prepared to withstand the stresses of the crisis, and we remain relevant, well capitalised and on course to build on our performance in 2021 and deliver on our strategic development objectives.

So it's onwards after a very difficult year. There are few people who haven't been challenged personally and professionally in 2020. I would like to pay tribute to our Agency principals and staff who served our members well for many years. Credit for our continued stability goes to our entire workforce and I'd like to thank our colleagues for their courage and commitment in the face of this crisis, who have been determined to serve the members to the best of their ability.

Approved by the Board of Directors 15 March 2021.

GM Berville

Chairman, Graham Berville
15 March 2021

We remain relevant, well capitalised and on course to build on our performance in 2021 and deliver on our strategic development objectives.

02

Strategic Report

From our Chief Executive,
Chris Harrison.

Strategic Overview & Priorities

2020 has proved a challenging year by any standard. Our expectations of how much we could achieve by way of our strategic development objectives had to change over the course of the year as we adapted to deal with the persistent impact and uncertainties of the crisis.

Our leadership teams responded swiftly, enabling us to put new measures in place that have maintained our stability amidst turbulent circumstances. We're hugely grateful for the contribution of all our colleagues during a demanding period.

Safeguarding our people and protecting the financial security of our members has been our core focus and our thoughts are with those colleagues and members personally affected by the Covid-19 pandemic.

As in previous years, we remain committed to contributing to our members' personal prosperity by facilitating property ownership and a fair savings return. For this reason, sustaining a strong level of capital and liquidity, continued to be an important goal during the year. We've shown resilience in our operational continuity and our performance.

We responded to the reduction in the Bank of England Base Rate from 0.75% to 0.1% in a balanced way, passing on the reduction to eligible mortgage accounts and to a lesser degree to savers overall. Our decision to apply the rate changes in this way has impacted the margin negatively overall. The lengthy low rate interest rate environment is unwelcome to our savers and we will continue to support our members with a fair approach and a range of savings options.

As part of our 2019 strategy review, we committed to building on our solutions lending proposition to offer our members and brokers a range of products and services that meet their needs - at an appropriate return for our wider mutual membership. Our purpose remained unchanged in 2020; we're here to help people buy or build their dream homes and help them with their prosperity and savings aspirations, providing fair value and security. Our mortgage applications (purchase and re-mortgage) are individually underwritten by a team of experienced colleagues, able to understand and assess complex and unusual cases.

We responded to the reduction in the Bank of England Base Rate from 0.75% to 0.1% in a balanced way, passing on the reduction to eligible mortgage accounts.

During the first lockdown, the housing market was effectively closed and, of course, this impacted our 2020 results including growth and profitability. However, we were able to implement new working practices which enabled us to continue to process mortgage applications and valuations throughout much of the year.

Pre-tax profit for the year was £2.3m compared to £3.0m in 2019. Profits were impacted by reduced net interest margin, increased management expenses and higher impairment provisions. We expect the margin to be under further pressure in 2021.

Our operational resilience and business continuity planning was demonstrated at a practical level during 2020, and we will continue to build on the technological systems and processes in place to provide a stable, secure and flexible platform for the business going forward.

As we navigated the crisis we paused a number of our strategic initiatives in order to prioritise our focus on maintaining critical services for our existing members – ensuring we could keep our branches open for our customers to access cash and mortgages could be written and completed or switched. In order to make transactions easier for all our members, we broadened our telephone service to enable customers unable to visit a branch or agency to access their savings.

Those strategic projects, such as upgrading our core IT systems and website development were continued once we had embedded our new remote working operating model. It was considered essential to make progress on our digital transformation projects for the longer-term benefit of all our members.

We have a distribution strategy to deliver our products and services across our range of channels. We have invested in improving our digital proposition to ensure we offer a friendly, personal service online as well as in our branch network. This continued investment in the savings platform and our website means we can continue to fully serve our members through our telephone, online and branch services providing our members with greater choice.

> **We will continue to build on the technological systems and processes in place to provide a stable, secure and flexible platform for the business going forward.**

Economic Climate

The housing market performed with a perhaps unexpected resilience despite the crisis. This was attributed largely to a number of Government interventions in the form of stamp duty holidays, Bank of England Base Rate reductions, the extension of the Term Funding Scheme and the reduction in the countercyclical capital buffer aimed at alleviating the economic impact of the pandemic. An extension to the stamp duty holiday has been announced in the March 2021 Budget.

Markets have been volatile over the course of the year and we expect this to continue in 2021, with the potential for a downturn in the housing market, and with the prospect of higher unemployment as furlough and other Government support schemes come to an end.

The savings market has been strong, as people were unable to spend money on holidays and other luxuries, which in addition to the Government's additional Term Funding Scheme with additional incentives for SMEs (TFSME), has meant higher liquidity levels available to support lending demands.

Society performance and strength

Whilst our in year performance was affected by the pandemic, we entered 2020 with a healthy pipeline of mortgage business. We then focused on retaining customers and supporting our members during the year which has helped us to achieve a balance sheet total of £1.1bn for the first time in our history.

Our profit after tax was £1.9m (£2.4m: 2019), however an increase of the pension deficit resulted in a reduction in reserves year-on-year.

The gross capital as a percentage of Share and Deposit Liabilities (SDL) was 7.5% (8.3%: 2019) and our CET1 ratio 18.74% (19.43%: 2019), with regulatory capital of £72.2m (£74.2m: 2019), providing the necessary strength and security for our members.

The net interest margin declined to 1.49% (1.58%: 2019) mainly due to actions taken by the management team in response to the Bank of England Base rate reduction from 0.75% to 0.10% which impacted the retail book and the swap portfolio. The Society's decisions in respect of the way in which we passed on the rate changes to our savings and mortgage customers impacted the margin negatively overall.

Mortgages

Despite the housing market virtually closing for the duration of the first lockdown, over the course of the year, it has remained relatively strong and we delivered gross mortgage lending of £187m (£229m: 2019).

We focused on retaining existing mortgage customers and ensuring our operational service levels were maintained whilst working remotely.

> **The average loan to value (LTV) of the whole mortgage portfolio remains under 50% LTV.**

Our mortgage assets grew by 3.2% (7.0%: 2019) to £911m at 31 December 2020 (£882m: 2019) and we entered 2021 with a strong pipeline of new business. There will inevitably be stress on lenders and other elements of property transactions, such as legal and local authority services as the stamp duty holiday period draws to a close in the second half of the year. We have prepared for the operational risk and will support our members as much as possible.

Whilst the crisis has had an impact on our credit risk within the mortgage book, we've invested in our risk function to develop our modelling and further strengthen our credit risk management. This development helped us to support local home ownership in 2020, offering 95% loan-to-value (LTV) lending within our heartland when many other lenders had withdrawn from the higher LTV market. As a mutual, it is our intention to provide residential home loans, where appropriate returns for risk are available, in markets such as first time buyers and self-build, to help our communities and customers where appropriate.

Arrears and provisions

In 2020, many of our borrowers, in line with the market generally, understandably experienced financial difficulty that impacted their ability to make mortgage repayments. The introduction of the payment deferral scheme by the government temporarily eased this pressure.

Arrears and forbearance metrics remain relatively low but we expect that the economic impact of the pandemic will continue to be felt for some time. The payment deferral schemes in 2020 have to a certain extent obscured customers otherwise seeking forbearance and/or arrears situations.

Residential loan loss provisions have increased in the year from £614k to £854k at 31 December 2020. The provision increases we have made in 2020 recognise the increased risk and uncertainty. We will do all we reasonably can to help members through these difficulties.

Savings and funding

We fund our lending largely through attracting and retaining retail savings and we've strived to ensure our savings rates remain fair in this historically low interest rate environment. Funding pressures have reduced over the year with Bank of England support measures and many people choosing to save money which they were unable to spend on holidays and other leisure activities.

We achieved a significant growth of 12% in our share balances (3.1%: 2019) with total balances of £849m (£758m: 2019).

We also continued to make use of the Bank of England's Term Funding Scheme (TFS) and maintained funding of £90m at year end (£90m: 2019). It is important for the Society to maintain access to non-retail sources of funding, including wholesale markets for hedging purposes.

At the end of the year we held £185m (£116m: 2019) of liquid assets, and a liquidity level of 18.2% SDL (12.6%: 2019), with liquidity comfortably above the regulatory requirements.

Supporting our people, members and communities.

We were pleased to grow our membership this year and our commitment to supporting our members and local communities will remain a focus for us through 2021. We're proud of the help we've been able to provide to some smaller local charities and food banks during the crisis.

We know that as a result of the crisis and its impact, more people in our communities will be vulnerable. We'll continue to do our utmost to ensure our members feel supported during this challenging time and equipped to deal with the difficult circumstances that we face together.

Looking Forward

Through decisive direction at the early stages of the crisis, we established a continuity of critical services whilst also protecting the health and wellbeing of our people. We expect that economic conditions over the next year will be difficult. However, as a consequence of our actions, we're stepping into 2021 cautiously but confident and prepared for the challenges ahead.

We'll continue to invest in and develop our people and strengthen our teams in Risk and Compliance to help us move forward and achieve our progressive goals. We have welcomed Elaine O'Dwyer as our new Chief Risk Officer to the Executive team as Keith Bevan retires in 2021, and will take the opportunity to build the Risk and Compliance functions so that we are well placed to meet the complexities and challenges of the business going forward. We thank Keith for his work over the last few years and wish him well for the future.

Our investment in digital solutions for our customers will be a focus for 2021 and beyond, so that we can continue to provide members and brokers with greater choice as to how they access our products and services which meet their needs in a modern world.

Our remote operating model will continue whilst it is necessary to keep our colleagues safe and we look forward to a more normal environment where we can meet each other in person more regularly.

Chris Harrison

Chief Executive, Chris Harrison
15 March 2021

We'll continue to invest in and develop our people and strengthen our teams in risk and compliance to help us move forward and achieve our progressive goals.

03

Directors' Report

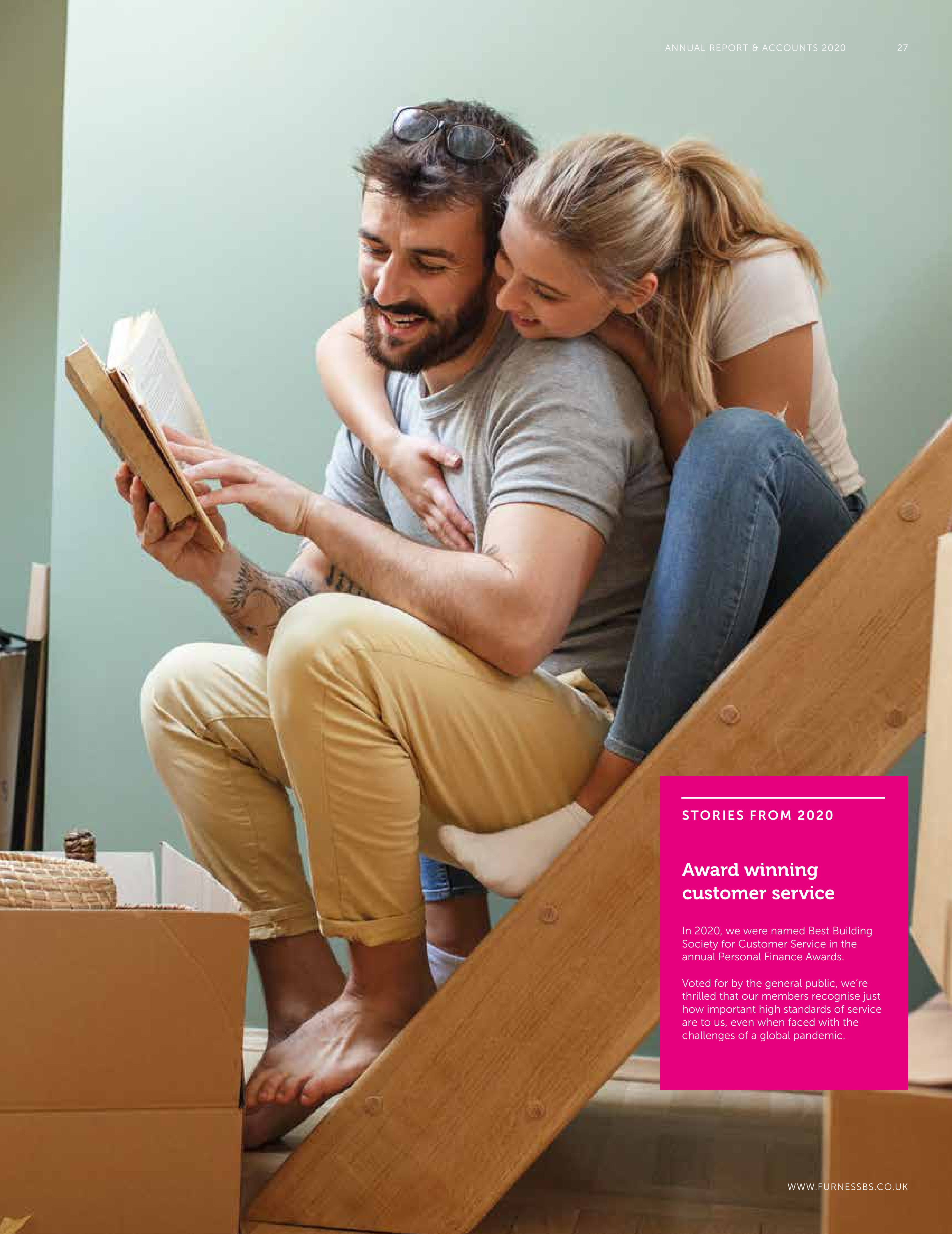
Strategic Review

The Chief Executive's Strategic Report (pages 17 to 24 of the 2020 Annual Report & Accounts) provides more detailed information of the Society's performance for the year and factors impacting the results.

The key performance indicators are detailed below for ease of reference and for further information please refer to the Chief Executive's Strategic Report.

Key Performance Indicators		**2020**	**2019**
Balance Sheet	Assets	**£1,101m**	£1,004m
	Loans to members	**£911m**	£882m
	Retail shares and deposits	**£1,013m**	£920m
Operating Performance	Management expenses (% of mean assets)	**1.18%**	1.23%
	Interest Margin (% of mean assets)	**1.49%**	1.58%
	Mortgage balances in arrears (>2months)	**£5.7m**	£2.6m
	Profit after tax	**£1.9m**	£2.4m
Financial strength	Regulatory capital	**£72.2m**	£74.2m
	Total capital ratio	**19.2%**	20.3%
	Liquid assets (% of shares and borrowings)	**18.2%**	12.6%

Our Annual Report & Accounts are prepared under Financial Reporting Standards (FRS) 102 and apply the measurement and recognition provisions of IAS39.



STORIES FROM 2020

Award winning customer service

In 2020, we were named Best Building Society for Customer Service in the annual Personal Finance Awards.

Voted for by the general public, we're thrilled that our members recognise just how important high standards of service are to us, even when faced with the challenges of a global pandemic.

Business Review
Remaining financially robust

As we've steered our business through the challenging circumstances of the past year, our financial focus has been to prioritise long-term prosperity over short-term costs or benefits.

Overview on income statement	2020 £000	2019 £000
Net interest income	**15,693**	15,763
Other income and charges	**(611)**	(698)
Administrative expenses	**(11,749)**	(11,328)
Depreciation and amortisation	**(679)**	(1,010)
Impairment (charge)/credit	**(305)**	258
Profit before tax	**2,349**	2,985
Taxation	**(423)**	(565)
Profit after tax	**1,926**	2,420

Net Interest Margin

The Society's interest margin reduced during the year from 1.58% to 1.49% mainly due to actions taken by the Management team in response to the reduction in the Bank of England Base rate from 0.75% in January 2020 to the current 0.10%. We balanced the needs of mortgage account holders and savers and prioritised our member impacts over profitability. The low interest rate environment is expected to remain in the medium term and the margin will be under pressure as a result for some time.

Other income and charges

This comprises fees and charges not accounted for within the net interest margin. This figure also includes fair value losses/gains on derivative instruments. We use these solely for risk management purposes to hedge exposure to interest rate changes on our portfolio of fixed rate mortgage and savings products.

Management expenses

The Society's management expenses (defined as administrative expenses plus depreciation and amortisation as shown in the table above) include staff costs and all other operating costs necessary for the business to function including any overheads, depreciation and amortisation.

Our Board and Executive recognise the need to balance cost control with investment in the business and the high calibre people required to run the business effectively for its members in order to continue providing excellent products and services.

Over the course of 2020, despite the additional challenges of the pandemic which did incur some direct costs we maintained the management expenses at broadly the same level year on year. However the administrative expenses were higher as a result of the additional pressure on productivity and direct costs involved in managing the coronavirus crisis. This was offset by a reduction in the level of depreciation and amortisation.

Over the course of 2020, despite the additional challenges of the pandemic which did incur some direct costs we maintained the management expenses at broadly the same level year on year.

Impairment charges

Our loan loss provisioning assumptions were amended during 2020 to reflect improvements in our credit risk analysis and the payment deferral risk as a result of the Covid-19 pandemic. The policy makes provision against potential estimated specific and collective losses.

During the year the Society approved circa 1,200 payment deferrals on mortgages for a period of between 1 and 6 months. The vast majority of these customers were able to recommence payments following the deferral period; however a small number required further assistance.

The increased impairment charge recognises the higher levels of forbearance and uncertainty in the economic situation.

Arrears management

The number of mortgages in arrears (over 2 months) grew from 46 to 60, with total arrears outstanding at the year-end £170k on these cases and an aggregate balance of £5.7m.

The Society incurred no mortgage losses in 2020, which was also the position in 2019. We show forbearance where appropriate, and at 31 December 2020, there were 44 (49: 2019) cases on which forbearance was being applied.

We are not complacent and have increased our operational resources in this area to reflect the increased risk and additional support which may be required by our members in 2021.

Profit

The Society's profit after tax reduced from £2.4m in 2019 to £1.9m in 2020. In common with many businesses, the pandemic directly affected our profitability and it was no surprise to record a fall in profits at the end of this unprecedented year. The housing market was effectively closed for a period of time during the first lockdown which meant no new mortgage business was written in that period and unexpected costs were incurred to ensure continuity of services for members.

Capital

The preservation of capital will enable us to protect our members and sustain the future of the business. Our core equity tier (CET1) ratio remains strong at 18.74% (19.43%: 2019) and substantially higher than the minimum required by our Regulators.

Our capital strength continues to support the demands associated with the development and investment in the business which will ensure our future success. This financial strength also protects the Society against its principal risks and safeguards members' funds.

The minimum level of capital required to be held is set by the Prudential Regulatory Authority (PRA) and we ensure capital is maintained at the appropriate level for the normal business needs as well as significant stresses in the market.

At 31 December 2020, our gross capital (as a % of Shares and borrowings as defined on page 116) was 7.5% (8.3%: 2019). This is due to a sharp rise in retail share balances during the year.

Assets

The total assets increased by 9.7% to £1.1bn – the first time in our history the balance sheet has reached this level. This was largely due to the increase in savings balances as spending decreased during the lockdowns and restrictions imposed on travel and other movements over the course of 2020. This led to increases in savings balances and subsequent increase in our overall liquidity. This position may be temporary or reverse as the lockdown restrictions are eased, however many uncertainties remain which makes behavioral forecasts difficult at the present time.

Liquidity

Our liquid assets and liquid assets ratio have grown year-on-year in 2020 which is due to increased levels of savings balances and changes to the Bank of England's Term Funding Scheme. The scheme's replacement by the Term Funding Scheme with additional incentives for SMEs (TFSME) sees it extended to 2025 and enables us to renew our balance which is a welcome benefit in these uncertain times.

The Society's liquid assets comprise cash and other assets that are easily converted to cash, which are shown in the statement of financial position. We ensure the liquidity is of appropriate quality to meet our financial obligations as they fall due, under both normal and stressed scenarios. The increase in retail balances has led to higher liquidity levels and this position will continue to be monitored closely.

At 31 December 2020, our liquid asset ratio was 18.2% of Share & Deposit Liabilities (SDL) (12.6%: 2019).

> **A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR) which was 274% as at 31 December 2020, considerably above the regulatory requirement.**

Going concern and long-term viability

We've considered the potential economic ramifications of the crisis on our current and future obligations and the Society's prospects over the 12 months from the date when the financial statements are authorised for issue. Our Corporate Plan period is over three years and is used to support both going concern and longer term viability assessments.

We expect uncertain conditions to continue and house price growth to slow or prices to fall in the short term. Unemployment levels are expected to increase which may impact the business both in terms of affordability of existing loans and the level of new mortgage applications received. Interest rates are widely forecast to remain at low levels for some time.

The latest profitability, liquidity and capital forecasts in the plan have been reviewed and we're satisfied that our severe stress scenarios are survivable. We continue to forecast long-term viability with moderate growth and continued capital surplus, despite the forecasted decline in net interest income (NII).

The capital adequacy position was considered in the ICAAP stress scenarios, and reverse stress testing scenarios.

The Board considers the Society to be well positioned for the future, with sufficient levels of capital and liquidity to withstand stress events.

We do therefore; continue to prepare our financial statements on a going concern basis.

Post year-end events

The outlook for the UK economy remains highly uncertain. In addition to the ongoing coronavirus crisis and changes to the House Price Index (HPI), we've also considered the impact of the UK's withdrawal from the EU following the end of the Brexit transitional period on 31 December 2020.

We've paid due regard to the events following our year end and don't consider that any have had a material effect on our current financial position or our going concern assessment.

Supplier payment policy

Our policy continues to be to discharge supplier invoices within the agreed payment terms providing they fully conform to the terms and conditions of the purchase. We know how important this is in the current economic climate. Average settlement time in 2020 was 30 days (30 days: 2019).

Donations

During the year, we made various donations to charity totalling £5k (£8k: 2019). This is in addition to affinity account payments of £198k (£211k: 2019).

We also allow our people time to support charitable causes and a number of employees were assisted in this way in 2020.

No political gifts or donations were made during the year (NIL: 2019).

Directors

Our Directors are responsible for the maintenance and integrity of the corporate and financial information. UK legislation governing the preparation and dissemination of the Annual Report & Accounts may differ from that in other jurisdictions.

We're required by the Building Societies Act 1986 to prepare annual accounts for each financial year that provide a true and fair view of the income and expenditure of the Society and provide details of the Directors' remuneration. The Directors' responsibilities in respect of the preparation of the Annual Report & Accounts and Annual Business statement include:

- Ensuring suitable accounting policies are used in consistent manner
- Ensuring key accounting judgements are reasonable
- Ensuring compliance with International Accounting Standards
- Preparing the accounts on a going concern basis (unless it would be inappropriate to do so).

Directors who served during 2020 are listed on page 55. None of the directors had an interest in the shares or debentures of any associated body of the Society at any time during the financial year.

Section 172 of the Companies Act 2006 sets out the duties of any company director. This does not apply to our Directors here at Furness as we are a Building Society. However, the UK Corporate Governance Code expects Board members to set out how Section 172 matters are considered in its decision making.

Our Board confirms it has acted in good faith and in a way that would be most likely to promote the success of the Society and the best interests of its members.

Disclosure of information to the auditor

At the date of approval of this report, each of our Directors confirms that:

- So far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware.
- All steps necessary have been taken in order to be aware of any relevant audit information and establish that the Group's auditor is aware of that information.

Appointment of the auditor

In accordance with legislative requirements relating to the rotation of External Auditors, we completed a tender process in 2019 to select a replacement for KPMG LLP, with effect from 2020. Mazars LLP was appointed during our 2020 Annual General Meeting (AGM).

Pillar 3 disclosures

As required, we have set out further details of our risk management framework, including our risk exposures and assessment processes, in our Pillar 3 document which is available on our website.

We also allow our people time to support charitable causes and a number of employees were assisted in this way in 2020.

Risk Review
Managing & mitigating risk

The Society operates in a business environment that contains a broad range of financial and non-financial risks. We have a formal risk management framework, including a detailed Board Statement of Risk Appetite.

The Board is responsible for the effective management of risks within its appetite and it delegates oversight of the implementation of the risk management framework, including policies to the Board Risk Committee. Key risk and performance indicators are monitored by the Board on a regular basis.

Our three lines of defence model ensures clear separation between the ownership and management of risk and controls (first line), oversight, support and advice (second line) and internal audit assurance (third line).

To protect the Society, we regularly stress test our mortgage book and assess the level of provisioning which has increased at this difficult time.

Line 3
Internal audit assurance

Line 2
Oversight, support and advice

Line 1
Ownership and management of risk and controls

We've outlined the key risks faced by our business below:

Strategic Risk

These are the risks resulting from our strategic decisions which have the potential to impact the Corporate Plan and forecast results or performance over the planning period.

A crystallisation of strategic risk could affect the overall strength of the Society or impact the business model.

The Board regularly discusses strategic issues and challenges the corporate plan proposed by Executives. It ensures strong levels of capital and liquidity are maintained to provide resilience against external factors which may cause stresses to the business.

Credit risk

Credit risk is the risk that borrowers or counterparties to whom the Society has lent money may default on their obligation to repay the Society. Following Covid-19, we are expecting that any economic downturn will undoubtedly cause more hardship for some of our members in the months ahead. Whilst we will offer support to these customers, we acknowledge that some may not be able to repay their mortgage. The Society holds security on customer mortgages in the form of property and land. A reduction in HPI impacts the value of these and may increase the loss in the event of default. Furthermore, property and land also becomes harder to sell during an economic downturn and therefore increases the discount on the sale price of the property (forced sale discount), further increasing the Society's credit risk.

To protect the Society, we regularly stress test our mortgage book and assess the level of provisioning which has increased at this difficult time. In 2020, we developed a credit risk model to identify the appropriate level of stress we should apply. In addition, we have held an increased level of provision to ensure we are capturing the impact of the payment deferral scheme and the subsequent removal of the furlough scheme.

We'll continue to manage the risk that our borrowers may default on repayments through prudent lending criteria comprising detailed credit history assessments as well as robust property valuations should default occur. Fluctuations in the House Price Index (HPI) impact the credit risk inherent in our mortgage book. In 2020 HPI increased by 5.4% on the previous year.*

Mortgage payments are monitored closely and swift action is taken to help any members who fall into arrears.

Our Credit Risk Committee meets regularly to consider all the risks associated with lending and reviews large and potential default accounts and the impact they have on our financial position.

Counterparty credit risk is controlled through adherence to the Board approved Treasury and Financial Risk Management policy and limits.

Liquidity and funding risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, resulting in the inability to support normal business functions and activity. There is also a risk of breaching regulatory requirements.

The nature of the Society's business involves maturity transformation whereby the Society borrows for relatively short terms and lends on mortgages for much longer periods. The mismatch also creates liquidity risk.

Funding risk is the inability to access funding markets or to do so at excessive cost. We manage this risk by ensuring we have no over-reliance on a single source of funding.

The Board-approved Internal Liquidity Adequacy Assessment (ILAAP) sets out the framework of risk management for the liquidity risks under both normal and stress conditions.

Liquidity and funding is monitored by the Assets and Liabilities Committee (ALCO) on a regular basis.

Basis risk

Basis risk is the risk of divergence between several bases, such as SONIA and the Bank of England Base Rate. The Society manages its interest rate risk exposure mainly by setting limits against the relative exposures and carefully monitoring the positions.

Margin risk

Margin risk is the risk of erosion between the interest rates charged to our mortgage borrowers and the interest rates paid to our savings account holders. Whilst the interest rate environment remains, as it has for some time, at historically low levels, in an exceptionally competitive market, margin decline is a significant risk which requires robust management.

The Board sets margin objectives within the corporate plan, and the Executive and Pricing Committee and Assets & Liabilities Committee (ALCO) monitor the position closely.

*Land Registry Data - UK House Price Index, October 2020

Operational risk (including COVID-19 pandemic impact)

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events, and can arise across the whole business, with higher likelihood as we go through transformational change or other large projects.

One of the consequences of the unprecedented events of 2020 has been the adoption of remote working – on a scale we'd never previously envisaged. Like many UK businesses, we were required to implement a remote working model, comprising some new temporary and longer-term processes, at pace. Examples of these include the development of new telephone and online services.

Meanwhile in branch, our staffing levels have been affected by team members needing to self-isolate to minimise the spread of coronavirus. We were able to maintain a branch service, albeit with reduced operating hours, throughout our network despite these challenges.

The deployment of new procedures and new IT equipment enabled us to maintain critical services for our members. However the remote working model introduced additional, although operational risk including cyber risks, and health and safety risks. We will continue to monitor these closely over the course of 2021.

We have robust systems and controls in place to mitigate operational risks and we have numerous software and other infrastructure protection in place to support operational resilience and mitigate against the risk of disruption from events such as cyber or data loss.

> **Our commitment to treating our customers fairly is demonstrated through our conduct risk policy and monitored through our conduct risk management information.**

Legal and regulatory risk

This is the risk of fines, public censure limitations on business or restitution costs arising from failure to understand or correctly interpret regulatory change. Regulatory changes are monitored and reported monthly to the Executive and Risk Committees.

Conduct risk

Conduct risk is the risk of developing systems, behaviour and attitudes within the business which may cause customer detriment and do not deliver fair customer outcomes. A poor culture could also cause a risk of creating an environment in which staff behaviour is not open and honest which can result in reputational loss.

The Covid-19 pandemic has heightened conduct risks through challenging trading and operating conditions and increased customer vulnerability. We have addressed these risks by focussing on treating our customers fairly, including those in financial difficulty, increasing governance with more regular management meetings and MI, improving our operational resilience and increasing our fraud prevention monitoring.

Our commitment to treating our customers fairly is demonstrated through our Conduct Risk policy and monitored through our conduct risk management information which is regularly reviewed by the Executive and Risk Committees.

Cyber security risk

Our switch to remote working was conducted swiftly and successfully thanks to improvements made to our IT infrastructure in 2019. This formed part of our efforts to improve operational resiliency and enhance our digital offering to support changing customer needs.

However, we've identified greater cyber risks resulting from our stronger digital presence and infrastructure. To reduce this, we've improved our surveillance tools and increased our cyber security efforts and we'll continue to invest in these over the coming months and years.

Pension liabilities

The Group operates a Defined Benefit Pension Scheme which uses assumptions, based on current economic environments, for the valuation of the Scheme's assets and liabilities. There is a risk the Group may see a deterioration to capital or funds if actual experience differs from assumptions employed as a result of changes to market and economic conditions. A deterioration in the Scheme's liabilities would require an increase to cash contributions which could erode CET1 resources.

This Scheme provides pension benefits for a small number of pensioners and staff. It was closed to new entrants in 2000 and closed to future accrual in January 2017 – in common with many other schemes of this nature.

At the end of the year, the Scheme deficit was £5.7m (£3.6m: 2019). The increase to the pension deficit is as a result of changes in actuarial assumptions brought about by the challenging economic environment. We have agreed to increase our future contributions in order to maintain the previously agreed term of the deficit payment plan.

During 2020, following a competitive tender process, we completed a transfer of the trusteeship and governance of the Defined Benefit Pension Scheme to Entrust Pension Limited. The new arrangements will provide the full time professional expertise required for the complex management of the Scheme. We're grateful to our previous Trustees whom we thank for their services to the Scheme over many years prior.

Market environment risk (including Brexit and Covid-19)

We saw two Bank of England base rate cuts in March 2020 which reduced the rate from 0.75% to 0.10%. The consequence of these cuts is further pressure on our net interest margin and on our ability to provide superior returns to our members. In addition, both the savings and mortgage markets have seen changes in rates as the competitive landscape has shifted over the year, as well as dealing with the impact on lockdowns of parts of the economy. Our Asset and Liability Committee as well as our product pricing committee have kept the impact of these issues under close scrutiny.

We expect that 2021 could be a similarly challenging marketplace and may put additional pressure on our ability to manage our net interest margin. We're also ensuring we're prepared for the prospect of further base rate cuts as well as the prospect of base rates becoming negative during 2021.

The end of the Brexit transition period has a limited direct impact on our business, however it is likely to add to the macro-economic difficulties which have developed and worsened due to the pandemic.

Climate change risk

We are aware of the potential long-term and structural risks that accompany the risks of climate change. As part of our standard underwriting process, we carefully consider the information we receive regarding the flood risk of properties. We also closely monitor any minimum standards for properties that are let (e.g. minimum Energy Performance Certificates) as part of our reviews for Buy-To-Let and Holiday Let properties. We'll continue to closely monitor any emerging trends in information as well as the regulatory requirements relating to property.

In 2019 we completed a detailed review of our mortgage portfolio to identify any potential issues from flooding since properties were originally underwritten. This didn't identify any material concerns but highlighted some weaknesses in the information we could access on our historic properties. In 2020 we improved this data and will continue to develop and monitor our risk assessments.

We support our Defined Benefit Pension Scheme and ensure the funding and governance of the Scheme is well managed.

Recruiting and retaining high calibre people to help drive our business forward is critical to our long-term success.

Our People and Members

Recruiting and retaining high calibre people to help drive our business forward is critical to our long-term success.

It's equally important we continue to foster a nurturing and motivational environment that allows our people to succeed in their roles. We're continuing to invest in our cultural transformation which in turn is supporting our transition into a high performing financial institution and we've felt the benefits of this throughout the course of this highly irregular year.

The crisis has required us to work in new and very different ways while delivering the same consistently good levels of customer service. We've all felt the absence of in-person interaction but our agile IT platforms have enabled us to remain working closely together, albeit far more remotely than we ever have before.

This level of collaboration could be seen in our Leadership team at the outset of the crisis. This ensured business remained open and services accessible during critical periods in the year and created a Covid-secure working environment in branch and at our head office. Meanwhile, our Board met on a frequent basis throughout the year to direct, support and ensure risks were identified and managed and customer expectations were met.

Enduring the year's challenges has been a significant undertaking and achievement for our entire workforce. Our teams have gone above and beyond for the benefit of our future and the safeguarding of our members.

As our members continue to need us in new and different ways such as through online and telephone banking, we've responded to that accordingly in the past year. Prompted by the circumstances arising from the crisis, in 2020 we made the difficult decision to withdraw from our agency distribution network.

Our agency network consisted of businesses such as estate agents and solicitors that offer a counter service for our savings members. However, some of these businesses were forced to close during lockdown and we acknowledged they had already been serving a reducing number of our members. The crisis further accelerated this, with greater numbers of members transacting through online and telephone channels or through our branch network. We'll continue to invest in the improvement of our remote and online services to meet our members' needs now and in the future.

As part of our customer support, we've paid due consideration to the influence the crisis has had on our communities. The availability of our 95% Loan-to-Value (LTV) mortgage product for property postcodes in our heartland, plus our efforts to adopt a remote valuation process, were specifically designed to help the next generation of home buyers while supporting the local economy and housing market.

Community groups and charities that have been adversely affected by the crisis have also been identified and in 2020, we awarded £5k in charitable donations as well as supporting Barrow Foodbank and running our Furness Community Awards Scheme. This is in addition to more than £198k in affinity account payments, which includes £73k to St Mary's Hospice in Ulverston to help provide free invaluable care and comfort to people with advancing illness. We have also refocused our affinity accounts to specifically support communities across the North West.

The Year Ahead

For 155 years we've remained an independent and mutual building society, committed to our vision of meeting the needs of our members. As we embark upon a new year, we remain unwavering in this purpose.

The past year has presented challenges of a type and scale we haven't witnessed before. We've had to adapt quickly and adjust frequently but we've demonstrated a solid performance for our members which will stand us in good stead for the challenges ahead.

Thanks to the direction and support from our Board, the strength of our Leadership team and the resilience of our entire workforce, we are now focused on ensuring a firm future for our people and members.

- We'll continue to help members own their own homes through quality mortgage products and our bespoke approach to lending through intermediary channels.
- We'll develop and deliver quality savings solutions and seek to provide a fair return on savings deposits, developing our savings proposition so that it remains relevant for current and future members.
- We'll invest in continued improvements to our IT infrastructure and through the development of new channels of communication, internal and external.
- We'll strive to achieve sustainable and profitable growth as part of our revised Corporate Plan.

We are pleased to confirm that we are safe, secure and well positioned to support our members, as well as future generations of savers and homebuyers, just as we have for the past 155 years.

Approved by the Board of Directors on 15 March 2021.

STORIES FROM 2020

Shifting savings habits

We've seen a noticeable shift in savings habits over the past year, with increasing numbers of savings members and growth in our savings balance sheet. This is particularly evident with our Regular Saver account which enables our members to save on a monthly basis to build up a lump sum amount.

Regular Saver stock balances have followed an upward trajectory since the start of the pandemic in March and are continuing to rise.

Securing your future, supporting your dreams.

Statement of Directors' responsibilities

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

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

The Building Societies Act 1986 ('the Act') requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they have elected to prepare the Group and Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing the Group and 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 Group and 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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

Directors' responsibilities for Accounting Records and Internal Controls.

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and 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 Group 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.

04

Corporate Governance Report

Our Approach to Corporate Governance

Our approach is based on the principles and provisions of the UK Corporate Governance Code as published by the Financial Reporting Council in July 2018. Although we are not required to comply with the Code, we pay due regard to its contents as instructed by the Financial Conduct Authority and Prudential Regulatory Authority.

Please visit www.frc.co.uk for a copy of the Code.

Leadership

The leadership of our Society has continued to meet the increasing complexities of the regulatory and competitive business environments, which has changed at pace during the coronavirus crisis.

Our finances, operations and risks are effectively managed by our Executive Committee (ExCo), led by our Chief Executive. This committee is also responsible for the delivery of all strategic corporate objectives approved by the Board.

Progress in these areas is subsequently reported into the Board and Board Committees by members of ExCo.

Our Board is committed to delivering the strategy through good governance including effective and informed decision making supported by quality reporting together with robust risk management and compliance ensuring we meet our regulatory requirements.

> **Our Board is committed to delivering the strategy through good governance including effective and informed decision making.**

Board Role

Our long-term sustainability and success is determined by our Board which challenges, evaluates and approves our business strategy.

We draw on the experience and strategic insight of our Board members to ensure we continue to safeguard the interests of our members. This has been particularly invaluable as we have responded to the fluctuating circumstances of the past year.

Our Board also values the regular reports received from across the business and regularly invites colleagues to attend and present to the Board or committees. This ensures input from a variety of stakeholders is considered in decision-making.

Specific Board responsibilities include:

- Setting strategic aims and objectives
- Strategically directing maintenance of a sustainable business model and oversight of our operations
- Continuous development of our culture and values
- Determining our appetite for risk
- Ensuring adequate resources to achieve corporate goals
- Reviewing the effectiveness of financial and operational risk management policies
- Reviewing and oversight of the performance of the Senior Management team

Whilst some management activities and decisions are delegated to committees, the Board keeps certain matters for its own approval and these are set out in the Schedule of Matters reserved.

Board Composition

Our Board remains independent and comprises six Non-Executive Directors and three Executive Directors. Its structure ensures that no individual or group is able to dominate the decision making process and there is no undue reliance placed on any one person.

The fitness, propriety and wider commitments of all members are assessed regularly by our Chairman and Group Secretary, whilst the performance of the Board as a whole is reviewed by our Nomination Committee.

The time commitment requirement for all Non-Executive Directors is clear at appointment and reviewed in year within the annual performance reviews. Our annual training plan ensures they are kept up to date with regulatory changes and other knowledge and skill requirements identified.

In accordance with regulatory requirements a number of our Non-Executive Directors and Executives have been allocated prescribed responsibilities as part of the Senior Management and Certification regime and have been approved to perform these functions by the regulatory authorities.

All Directors submit themselves for re-election by members on an annual basis at our Annual General Meeting (AGM). New Directors are appointed by the Board when vacancies occur and they are also subject to election at the next AGM.

We're pleased to report that our Board and its members continue to perform effectively and impartially, providing the high level of skills and experience required to navigate the challenges ahead, as highlighted in the Chairman's Report.

Board Evaluation

We're committed to providing our members and people with the best possible leadership to preserve the long-term future of our organisation.

We have conducted an annual examination of our Board's performance, a separate review of the Chairman's performance and that of individual Directors.

Whilst reviews of the Board and Committee effectiveness are undertaken on an annual basis, in line with best practice, periodically an independent review of the Board is undertaken. Deloitte LLP commenced an independent Board evaluation exercise in December 2020 which we expect to conclude in Q2 2021.

Board Meetings

Our Board meets on both a scheduled and on-demand basis throughout the year, reflecting the ongoing requirements of the business and the need for strategic input and guidance from our Board members.

In 2020, at the outset of the crisis, our Board met regularly, enabling us to draw on our Board members' collective experience. This proved invaluable in helping guide us through the ever-changing landscape and subsequently mitigate the impact of the crisis on the business.

As we stabilised our response and maintained business as usual, the Board continued to meet regularly and continued to do so throughout 2020.

Formal and scheduled monthly meetings took place as usual and we held a total of 13 in 2020.

If a Director cannot attend a meeting they will receive the papers and provide feedback to the Chairman in advance. Occasionally when an urgent decision is needed, the Board may take a decision in writing which is ratified at the next full meeting.

We're committed to providing our members and employees with the best possible leadership to preserve the long-term future of our organisation.

Risk Management

Our Board is responsible for ensuring an effective system of internal control is in place for the management of risk.

We utilise the industry standard three lines of defence model which is designed to identify, understand and monitor business risks and manage them appropriately.

Line 1 – Business operations

The process of identifying and evaluating risks is delegated to our Management team who ensure controls are working successfully. This ensures the business is operating within the risk appetite agreed by our Board.

Line 2 – Oversight functions

Risk management committees and related functions provide oversight and support the business in identifying and managing risk. These areas provide assurance in the adequacy and operation of the risk and control environment. In the event that we don't have internal expertise or capacity, we engage third parties as necessary.

Line 3 – Independent assurance

Our Internal Audit function provides independent assurance, reporting to the Audit Committee. This 'backstop' line of defence assures that all risks have been identified and internal control systems and processes are being managed appropriately.

Board Review

The Board has undertaken a review of the adequacy and effectiveness of the risk and control framework in place throughout 2020 and is satisfied that the framework of internal controls meets the business' requirements.

The review considered:

- Annual reports from the Chairs of Audit, Board Risk, Nomination and Remuneration Committees
- Regular reports and updates from our Audit Committee
- Feedback from the annual visit from the Prudential Regulation Authority
- Board Risk Committee reports
- Detailed Audit and Compliance activities
- Monthly financial reports covering balance sheet, income statement and treasury risks
- Monthly reports from Chief Executive, Chief Risk Officer and Chief Compliance Officer.

The Board has undertaken a review of the adequacy and effectiveness of the risk and control framework in place throughout 2020 and is satisfied that the framework of internal controls meets the business' requirements.

Our Board Committees

All Board Committees complete an annual self-assessment to ensure duties and responsibilities mandated by the Board have been effectively undertaken.

THE BOARD

AUDIT COMMITTEE	RISK COMMITTEE	NOMINATION COMMITTEE	RENUMERATION COMMITTEE	EXECUTIVE COMMITTEE (EXCO)	ASSETS AND LIABILITY COMMITTEE (ALCO)
Chairman Nic Gower Committee Members Kim Rebecchi Phillip McLelland	Chairman Phillip McLelland Committee Members Nic Gower Andy Haywood Peter Rogerson Conrad O'Donnell	Chairman Graham Berville Committee Members Kim Rebecchi Nic Gower Chris Harrison	Chairman Kim Rebecchi Committee Members Phillip McLelland Andy Haywood Peter Rogerson	ExCo's role is to manage all aspects of the Society with delegated authority from the Board. All the chief officers are members.	ALCO's role is to optimise and manage the margin and liquidity to enable the business to deliver the member benefits within agreed risk parameters.

Audit Committee

Comprising only Non-Executive Directors, our Audit Committee maintains complete independence in order to assess the work of management and the assurance provided by Internal and External Audit functions.

The committee invites Executive Directors together with representatives from the Internal and External Auditors to attend meetings and also regularly meets in private with the Internal and External Auditors and our Chief Risk and Chief Compliance Officers.

Specific responsibilities include:

- Monitoring the integrity of the business' external financial reporting including reviewing the appropriateness of significant financial reporting judgments.
- Reviewing the effectiveness of internal controls and risk management systems
- Ensuring satisfactory whistleblowing arrangements are in place and arrangements for investigation of any concerns
- Providing advice to the Board on whether the Annual Report & Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess our position, performance, business model and strategy
- Reviewing the activities and performance of the Internal and External Auditors and the Compliance function.

Audit Committee activity in 2020

External auditors: Recommending the appointment of Mazars, approved during our 2020 AGM, following a competitive tender process. Tracking and monitoring to completion of actions resulting from the KPMG Audit Management letter following the 2019 year-end Audit sign off.

Internal auditors: The need to effectively manage our resources during the pandemic – and whilst a large number of colleagues were required to work from home or isolate - meant that some of our business activities were paused or re-prioritised. As a result, some of our planned Internal Audit reviews for 2020 and outstanding improvement actions were amended or deferred. All deferred Internal Audit activity and improvement actions were either completed later in 2020 or rescheduled for completion in 2021.

Our Internal Audit contract with Deloitte LLP ended in December 2020. The Committee agreed a two year extension subject to satisfactory performance.

Reporting: Receiving regular reports in respect of the Internal Audit Reviews and Compliance monitoring which provided assurance regarding the control environment. In addition, receiving regular, detailed reports from the MLRO regarding AML and fraud monitoring. The reporting suite has continued to be improved throughout the year. The committee received no whistleblowing reports during 2020.

Key Financial Reporting Judgements in 2020

Credit Risk – Impairment of Loans and Advances

Provisioning for loan impairment involves modelling and assumptions, such as forced sale discount and probability of default (PD). Our modelling was updated for 2020 to take account of additional credit risks resulting from payment deferral schemes and to reflect more accurate PDs within different risk cohorts. This also included amending our definition of 'default' within the assumptions from six to three months arrears, in line with industry and regulatory practice. The Committee have reviewed credit risk provisioning and are happy with the approach.

Revenue Recognition – Effective Interest Rate Accounting (EIR)

EIR accounting necessarily involves estimates and judgements. The EIR policy and expected mortgage lives assumptions have been reviewed by the Committee, and are consistent with 2019.

Defined Benefit Scheme

The Defined Benefit Scheme valuation involves significant estimation judgements and assumptions which are based on professional actuarial advice. The Committee have reviewed the data and are satisfied with the approach adopted.

Going Concern Basis of Preparation for the 2020 Annual Report & Accounts

The Audit Committee reviews and challenges reports and forecasts of business performance, including key indicators such as profitability, capital and liquidity. The assessments are subjected to stress scenarios and consideration of external factors. The Committee concluded the use of the going concern basis remains appropriate.

Fair, Balanced and Understandable

The Audit Committee provided advice to the Board which concluded the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess our position, performance, business model and strategy.

Key areas of focus for 2021

In 2021 we'll be reviewing the framework for strengthening second line function and monitoring the completion of audit and compliance plans.

We'll also be monitoring control effectiveness and the development of assurance maps as well as overseeing the findings of second and third line reviews and subsequent deliverables. This will include monitoring the completion of the deferred internal audit activities and improvement points referred to above.

In 2021 we'll be reviewing the framework for strengthening second line function and monitoring the completion of audit and compliance plans.

Board Risk Committee

The Board Risk Committee advises our Board on risk appetite, risk exposure and future risk strategy.

Specific responsibilities include:

- Recommending to the Board the amount of risk the business is willing to take in pursuit of strategic objectives
- Assessing the principal risks we face as a business
- Monitoring the effectiveness of the risk framework
- Ensuring the risk function is adequately resourced
- Providing technical reviews of key policies and documents
- Oversight of the ICAAP capital and ILAAP liquidity position and forecasts

Board Risk Committee activity in 2020

Covid-19: We're satisfied that our efforts to react rapidly and robustly to the coronavirus crisis were well managed and the level of oversight appropriate. The risks to the health and wellbeing of our people and members were of paramount importance. Business risks were also managed effectively to ensure we continued to provide critical services for our members, including payments and mortgages.

Crisis management: The committee received regular reports regarding operational risks and credit risk. The Executive team was in crisis management governance for many months to ensure close and dynamic risk management.

Credit risk: The committee was engaged in and monitored the development of the credit risk modelling and MI which was significantly improved during 2020.

Key areas of focus for 2021

In 2021 we'll be supporting ongoing developments to our risk management framework and second line functions. We also welcomed a new Chief Risk Officer in January and a new team member for second line oversight and monitoring of prudential risk has been appointed. This will help us to strengthen our monitoring of the macro-economic impact on forbearance and credit losses. In addition, we will review our treasury approach to ensure our risk management framework supports the future development of the business.

We'll continue to monitor the changing regulatory environment as well as our ongoing cultural transformation programme and digital enhancements.

Nomination Committee

Our Nomination Committee oversees the selection process of Board members, Executive appointments and Senior Management team members as well as the allocation of Senior Management functions.

Specific responsibilities include:

- Considering the structure, size and composition of the Board on a minimum annual basis
- Recommending the appointment and removal of Executive and Non-Executive Directors to the Board
- Overseeing the performance appraisal of Executive and Non-Executive personnel

Nomination Committee activity in 2020

Board effectiveness: Reviewing the options for an external and independent Board effectiveness review and recommending a Deloitte proposal which was approved and will be undertaken in two phases.

Annual reviews: Conducting annual reviews into succession planning, management responsibilities map, Terms of Reference, role descriptions for the positions of Chairman and Vice Chairman, director training and committee membership.

Covid-19: Specifically considering succession arrangements in the event of illness amongst our leadership team as a result of the coronavirus crisis.

Key areas of focus for 2021:

In 2021 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties. The results of our externally-led Board effectiveness review will be considered and suggested improvements put in place and monitored.

In 2021 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

Remuneration Committee

The Remuneration Committee is composed solely of Non-Executive Directors and determines our overall remuneration policy as well as the remuneration packages for Executives.

Specific responsibilities include:

- Determining the terms, conditions and remuneration of our Chairman and Executive Directors
- Approving the terms, conditions and remuneration of Board appointed roles and the Senior Management team on the recommendation of the Chief Executive
- Approving the terms, conditions and remuneration of the Chief Executive on recommendation of the Chairman

Remuneration Committee activity in 2020

Remuneration Code: Carrying out a comprehensive assessment to demonstrate how we comply with the rules of the FCA's Remuneration Code. This included the completion of the annual regulatory template 'Remuneration Policy Statement'.

Remuneration packages: Approving remuneration packages for executive and senior management appointments and benchmarking our packages to ensure they remain relevant.

We also made selective awards to key staff as required and committed to supporting the Real Living Wage Foundation Scheme and its minimum threshold of £9.50 per hour.

Overarching remuneration policy: Approving a relocation policy which aims to provide a competitive package to attract high calibre individuals to our head office in Barrow-in-Furness.

Deferred bonus payments: Reviewed the terms and operation of the deferred bonus scheme arrangements with support of our legal advisers and made amendments to resolve ambiguity.

Thank you payment: Agreeing a one-off payment for all our people in December as a thank you for their commitment throughout a highly unusual year.

A detailed report on Directors' remuneration can be found on page 60.

The detailed responsibilities of all our Board committees are set in their respective Terms of Reference and are available on our website www.furnessbs.co.uk. Membership and meeting information, including the attendance of Directors, is set out in the table on page 55.

Director Membership
31 December 2020

	Board	Audit	Risk	Nomination	Remuneration
Chairman	**G M Bervillle**	**N J Gower**	**P A McLelland**	**G M Berville**	**K L Rebecchi**
	K L Rebecchi	K L Rebecchi	N J Gower	K L Rebecchi	P A McLelland
	N J Gower	P A McLelland	A P Haywood	N J Gower	A P Haywood
	P A McLelland	–	P D Rogerson	C M Harrison	P D Rogerson
	A P Haywood	–	C O'Donnell	–	–
	P D Rogerson	–	–	–	–
	C M Harrison	–	–	–	–
	C O'Donnell	–	–	–	–
	S J Heron	–	–	–	–

Director Attendance
31 December 2020

Director	Board	Audit	Risk	Nomination	Remuneration
G M Bervillle	13/13	–	–	4/4	–
K L Rebecchi	13/13	7/7	–	4/4	6/6
N J Gower	13/13	7/7	6/6	4/4	–
P A McLelland	13/13	7/7	6/6	–	6/6
A P Haywood	13/13	–	6/6	–	6/6
P D Rogerson	13/13	–	6/6	–	6/6
C M Harrison	13/13	–	–	4/4	–
C O'Donnell	13/13	–	6/6	–	–
S J Heron	13/13	–	–	–	–
Total No Held	**13**	**7**	**6**	**4**	**6**

STORIES FROM 2020

A happy halloween in Barrow and Dalton

In October, we invited children in Barrow and Dalton to put their creative colouring skills to the test and complete a spooky sketch for the chance to win a prize for their school.

We were inundated with entries and were so impressed with the amazing artwork on offer that we sent everyone who took part a soft toy. Congratulations to Ellie from Brisbane Park Infant School who was named our overall winner and secured £250 to spend on school art equipment.

05

Team Biographies

Board of Directors
& Other Officers

Graham Berville

Responsible for leading the Board of directors, Graham has over 30 years' experience in the financial sector, including work with six mutual financial services companies. His sound understanding of governance, risk and conduct requirements has been instrumental in steering us through a highly unusual year.

Key roles:
Chairman
Chairman of Nomination Committee

Wider commitments:
Chair of Keycare Insurance
Chair of Yorkshire Cancer Research
Woods Bacon Factory - Director

Chris Harrison

Chris joined us in 2017 and his strong vision and determination to instill a high performance culture have had a hugely positive impact on our transformation into a modern and competitive building society. He's committed to maintaining our strong community values and social responsibility and shaping a sustainable future for our members. Previous roles include President and CEO of Assurant Solutions Europe.

Key roles:

Chief Executive
Chairman of the Executive Committee
Chairman of the Assets & Liabilities Committee
Member of the Nomination Committee

Kim Rebecchi

Kim brings 30 years' experience in the mutual sector to our Board and is committed to instilling the benefits of mutuality to our members and local communities. Kim held a position at Leeds Building Society for 28 years, most recently as an executive member of the Board. Her in-depth knowledge of the sector and marketplace plays a critical role in supporting and guiding the Chairman and is valued greatly by the management team.

Key roles:

Vice Chairman
Chairman of the Remuneration Committee
Member of the Nomination Committee
Member of the Audit Committee

Wider commitments:

Director of Redmayne Bentley Stockbrokers LLP
Director of Business and Enterprise Finance Ltd
Director of Cynergy Bank Ltd

Nic Gower

Nic has enjoyed a long and successful career, with the majority spent as a partner at PriceWaterhouseCoopers LLP specialising in audit and risk management. As our longest-serving Board member, his experience and insight continues to be highly valued by all directors.

Key roles:
Senior Independent Director
Chairman of the Audit Committee
Whistleblowing Champion
Member of the Board Risk Committee
Member of the Nomination Committee

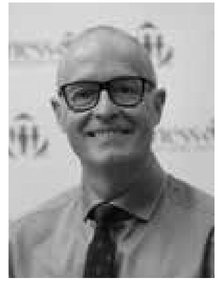
Wider commitments:
Director of the Manchester University
NHS Foundation Trust

Phillip McLelland

Phillip brings to the table experience from a number of directorship and senior finance roles including that of Finance Director at UK Asset Resolution, Provident Financial and the British Business Bank. He firmly believes in our 'member first' model and his proven commercial, finance and treasury expertise is helping guide us towards a successful future.

Key roles:
Chairman of the Board Risk Committee
Member of the Audit Committee
Member of the Remuneration Committee

Wider commitments:
Finance Director of Calisen plc.



Andy Haywood

Andy has held numerous executive positions in the retail and commercial banking sectors throughout his career including as Chief Operating Officer at N Brown PLC and roles at The Cooperative Group and Boots. His skills and experience in complex areas of technology and change management play a vital role in protecting members and safeguarding our future.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee

Wider commitments:
Chief Information Officer for Yorkshire Water

Peter Rogerson

Peter has worked in the financial industry for more than 30 years, including holding senior roles at Virgin Money and Alliance & Leicester. His extensive strategic, commercial and management experience is an asset to the Board, along with his passionate belief that everyone has the right to own their own home.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee

Wider commitments:
Trustee of the UK's busiest food bank, Newcastle West End Foodbank

Conrad O'Donnell

Conrad is a qualified chartered accountant with over 20 years' experience in the financial sector, notably holding senior positions in Morgan Stanley, Deutsche Bank and BNY Mellon. His financial management skills support our continued and long-term sustainability.

Key roles:
Finance Director
Member of the Executive Committee
Member of the Assets & Liabilities Committee

Sue Heron

A long-standing member of our team, Sue joined us 25 years ago in our Lancaster branch and has seen first-hand the important role we play in the community. She's held a variety of positions during her career before being promoted to Executive Director in 2015. Sue is passionate about growing our community focus and improving our digital offering for the convenience of members.

Key roles
Marketing & Sales Director
Member of the Executive Committee
Member of the Assets & Liabilities Committee

Keith Bevan

Having held many management and consultancy roles within the insurance sector, Keith was appointed as our Chief Risk Officer in 2018 and brings a wealth of experience to the role. He also attends the Board, Board Risk Committee and Audit Committee.

Key roles:
Chief Risk Officer
Chairman of the Credit Risk Committee
Chairman of the Management Risk Committee
Member of the Executive Committee
Member of the Assets & Liabilities Committee

Wider commitments:
Non-Executive Director of a local housing association
Fellow of the Faculty and Institute of Actuaries

Pam Mawson

Pam joined Furness in 1988 and holds extensive knowledge of our business, having held several managerial positions prior to her appointment as Group Secretary in 2015 and Chief Compliance Officer in 2017. Pam is passionate about working for a regionally-based building society whose customer interests are central to the culture of our organisation.

Key roles:
Group Secretary
Chief Compliance Officer
Member of the Executive Committee
Member of the Assets & Liabilities Committee

06

Directors' Remuneration Report

Our Remuneration Policy
Attracting, retaining and remunerating talent

Attracting, retaining and motivating talented individuals whose performance contributes to the success and stability of our business is critical. However, we also recognise our responsibility to protect members' interests by spending money wisely and not paying more than necessary to attract appropriate candidates.

The aim of our remuneration policy is to ensure our approach is suitably balanced. Its key principles are to:

- Align to our corporate plan objectives for our overall growth and security.
- Set total remuneration at a competitive level which rewards strong performance.
- Provide a clear link to effective risk management consistent with risk appetite.
- Meet regulatory standards and good corporate governance.

Executive and Non-Executive remuneration

Executive remuneration consists of basic salary, variable bonus, pension contributions and other benefits. The Remuneration Committee reviews this annually on recommendation of the Chief Executive – and in the case of the Chief Executive, on recommendation of the Chairman.

Summaries of the 2020 remuneration elements and packages are shown on page 64.

Non-Executive Directors are paid a fixed fee and there is an additional payment for the Chairman, Vice Chairman and Committee Chairs. The level is benchmarked against those paid by building societies of a similar size and complexity. The time commitment required in order to deliver their responsibilities within a regulated business environment is also considered. No bonus or variable pay is paid to the Non Executive Directors.

In November, our Remuneration Committee agreed that our Chairman's fees should be increased in line with the 2019/20 staff pay award. On recommendation of the Chief Executive, our Board agreed to apply the same percentage increase to the standard Non-Executive and Committee Chair fees.

Executive and senior leadership bonus scheme for 2020

Serving as an incentive to the achievement of corporate goals, our senior managers' bonus scheme includes key components including 'financial measures' and 'building future capability'.

The measures contained in the bonus structure are:

- Mortgage assets growth
- Profit
- Margin (NII)
- Expenses and cost management
- Strategic project delivery

As a result of the crisis emerging from the Covid-19 outbreak, it was clear that the financial objectives and targets set at the start of 2020 were not going to be met and no executive or senior management bonus would be paid for the year's performance due to the unusual trading and operating conditions. However, a financial reward has been made, outside the bonus schemes, to all colleagues (including the leadership team) in recognition of their hard work throughout the year.

Consulting our members

We consider it best practice to hold an advisory vote on the recommendations contained within the Directors' Remuneration Report, although we are not required to do so. An appropriate resolution of this year's report will therefore be put to members at our Annual General Meeting.

In 2020, 10% of members voted and of those 90% did so in favour of the Directors' Remuneration Report.

> **A financial reward has been made, outside the bonus schemes, to all colleagues (including the leadership team) in recognition of their hard work throughout the year.**

Summary of Executive Remuneration 2020

Element	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
Basic Salary	Reflects level of accountability. Provides ability to attract and retain individuals through competitive but affordable rates of pay.	Once set, future increases are linked to personal performance and peer group benchmarking.	Personal performance against the role profile and the delivery of personal objectives.	Individuals developing in a role may be paid below market rate until they are fully performing. Adjustments may be made if a role changes significantly or moves out of line with the market.
Bonus	Linked to the delivery of annual business plan targets including shared strategic objectives.	Challenging, but achievable objectives are aligned with the Corporate Plan. The Chief Risk Officer provides assurance that the scheme design does not incentivise inappropriate behaviours.	Corporate measures for 2020 are: • profit • mortgage asset growth • average mortgage margin • expenses & cost management • Shared Strategic Objectives. Personal objectives are set by the Chief Executive and reviewed by the Remuneration Committee.	The bonus amount varies between 0% and 40% depending on performance against a number of specific measures, agreed by the Remuneration Committee. Payment of 50% of the award is deferred for three years. Deferred bonus payments may be withdrawn in the following circumstances: • employee misbehavior or material error • poor performance leading to regulatory consequences • failure to manage credit risks causing the Society to become unprofitable. • employee has tendered their resignation/or given notice to/or has taken a long term career break.
Pension	Provides market competitive remuneration.	Pension contributions are on membership of the Society's Defined Benefit Contribution scheme. Cash equivalent may be offered if requested.	Not applicable.	Matched contributions up to 10% of basic salary.
Benefits	To align Executive total remuneration broadly with the market.	The principle benefits are: • life assurance • private medical insurance • company car allowance • 6 months' notice period • other benefits eg relocation assistance may be provided based on individual circumstances.	Not applicable.	Not applicable.

Executive Directors Fees

2020	Salary	Discretionary Staff Award / Bonus	Taxable Benefits	Sub Total	Defined Contri-bution Scheme	Total
	£	£	£	£	£	£
C M Harrison	219,914	1,000	17,643	238,557	–	**238,557**
C O'Donnell	159,650	1,000	8,102	168,752	15,965	**184,717**
S J Heron	106,760	1,000	9,875	117,635	10,676	**128,311**
Total	**486,324**	**3,000**	**35,620**	**524,944**	**26,641**	**551,585**
2019						
C M Harrison	212,477	72,242	17,635	302,354	–	302,354
M J Dobson[1]	161,657	–	7,968	169,625	22,905	192,530
C O'Donnell[2]	77,500	26,567	3,750	107,817	7,750	115,567
S J Heron	103,150	35,071	9,875	148,096	10,315	158,411
Total	554,784	133,880	39,228	727,892	40,970	768,862

In 2020 Executives were awarded a discretionary staff award of £1,000 each. There was no executive or senior management bonus paid for the year's performance due to the unusual trading and operating conditions

Non-Executive Directors Fees

Name	2020	2019
	£	£
C S Millar[3]	–	16,610
G M Berville	**49,364**	42,174
N J Gower	**31,834**	34,174
K L Rebecchi	**33,620**	34,749
P A McLelland	**32,136**	31,960
A P Haywood	**26,683**	28,631
P D Rogerson[4]	**27,109**	4,567
Total	**200,746**	192,865

Non-Executive Directors' fees include taxable travel expenses paid.

1. Included in the above numbers are ex gratia payments of £37,500 in salary and £12,500 in pension. M Dobson resigned on 24/09/2019 at which point previously awarded bonus' of £47,847 were foregone.
2. Appointed 01/07/2019 - The remuneration figures are from the date of appointment to the Board.
3. Retired 23/04/2019 - Replaced by G M Berville as Chairman.
4. Appointed 29/10/2019.

K L Rebecchi
Chairman of the Remuneration Committee
15 March 2021

STORIES FROM 2020

Supporting St Mary's Hospice

In 2020, we made a donation of £73,000 to St Mary's Hospice in Ulverston to help the charity keep invaluable services running which was generated through our affinity accounts.

St Mary's Hospice provides care and comfort to patients with life-limiting illnesses and it was a privilege to be able to support the incredible work it continues to carry out in our community.

"We're over the moon to have been able to continue to support St Mary's hospice through such challenging times. Our local hospice is so very important to our community and therefore important to us too. At Furness, we're in the people business, helping our customers become financially secure and to buy their dream homes but we're also grateful that we can play a part in helping in times when they need the services that St Mary's offer."

Sarah Wane
Marketing Communications Manager.

07

Independent Auditor's Report

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

Opinion

We have audited the Annual Accounts of Furness Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Group and Society Statement of Comprehensive Income, the Group and Society Statement of Changes in Equity, the Group and Society Statement of Financial Position, Group Cash Flow Statement and related notes, including a summary of principal accounting policies.

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

In our opinion, the Annual Accounts:

- give a true and fair view of the state of the Group's and Society's affairs as at 31 December 2020 and of the Group's and Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Society Act 1986 and the regulations made under it.

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 Annual Accounts section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the Annual Accounts in the UK, including the FRC's Ethical Standard as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the Annual Accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Annual Accounts is appropriate.

Our audit procedures to evaluate the directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group and Society's future financial performance
- Assessing the Society's ICAAP and ILAAP documentation forming the base of their Going Concern assumption;
- Assessing and challenging key assumptions and mitigating actions put in place to respond to the impact of COVID-19;

- Considering the consistency of the directors' forecasts with other areas of the Annual Accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the Annual Accounts on going concern.

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 Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the Annual Accounts 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.

Key audit matters

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

We summarise below the key audit matters considered in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Credit risk – impairment of loans and advances to customers (refer to page 89, accounting policy and page 97 annual accounts disclosures) Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation in arriving at the collective provisions. FRS 102 requires a collective provision for losses incurred but not yet identified by the Society. The collective impairment is derived from a model that uses a combination of the Group and Society's historical experience and, due to the Group and Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to movements in the house price index (HPI) and forced sale discounts against collateral. Other factors such as mortgage payment deferrals and other indicators of impairment triggers as a result of COVID-19 are also considered in the assessment.	We performed the following procedures: - Tested the design and the operating effectiveness of the key controls operating at the Group and Society in relation to credit processes for the monitoring of loans, collections and provisioning (including the approval of loans, loan redemptions, arrears monitoring and monitoring of loans) - Tested the integrity of the spreadsheet model used to calculate the collective impairment provision. This included testing of input data used in the model and checking the integrity of model calculations. - Assessed the reasonableness of external data used and considered whether this is consistent with our understanding of the Group and Society. - Assessed the reasonableness of the management overlays relating to mortgage payment deferrals, included within the provision. - Compared the Group and Society's key assumptions to those used by similar lenders and considered whether they are consistent with industry practice including the latest assessment of the impact of Covid-19 on borrowers' ability to repay. - Undertook a review of the processes for assessing and estimating individual provisions - Performed sensitivity analysis over the key assumptions on forced sale discounts and collateral values based on HPI. Based on the audit procedures performed, we concur that management has appropriately applied the stated accounting policy and the requirements of FRS 102, in relation to the assessment of impairment of loans and advances to customers and the related disclosures in the annual accounts.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Annual Accounts as a whole. Based on our professional judgement, we determined materiality for the Group and Society Annual Accounts as a whole as follows:

Overall materiality	£724,000
How we determined it	% of Net Assets
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximization. Regulatory capital is a key benchmark for management and regulators although it not a statutory measure in the annual accounts. Therefore, we base our materiality calculation of net assets, which is an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the Annual Accounts exceeds materiality for the Annual Accounts as a whole. Performance materiality of £471,000 was applied in the audit based on 65% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £22,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the annual accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the Annual Accounts as a whole. We used the outputs of a risk assessment, our understanding of the Group and Society, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the Group and the Society's Annual Accounts. Based on our risk assessment, we undertook a full scope audit of the Society, and undertook specific review procedures on the material balances in the trading subsidiary.

At the parent level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

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

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

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the society; or
- the society's individual annual accounts are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 42, the directors are responsible for the preparation of the annual accounts 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Group and 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 Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Accounts

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

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.

Based on our understanding of the Group and Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the annual accounts

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the industry in which it operates and considered the risk of acts by the Group and Society which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Group and Society's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also considered those other laws and regulations that have a direct impact on the preparation of annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 9 September 2020 to audit the Annual Accounts for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ending 31 December 2020.

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

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Society's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 their members as a body for our audit work, for this report, or for the opinions we have formed.

Tim Hudson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Mazars LLP
One St Peter's Square
Manchester
M2 3DE

15 March 2021

Furness Building Society Annual Accounts

08

Statement of Comprehensive Income

Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Interest receivable and similar income	2	**23,576**	**23,453**	25,699	25,554
Interest payable and similar charges	3	**(7,883)**	**(7,883)**	(9,936)	(9,936)
Net interest income		**15,693**	**15,570**	15,763	15,618
Fee and commissions receivable		**75**	**75**	104	104
Fees and commissions payable		**(633)**	**(633)**	(573)	(573)
Other operating income		**62**	**66**	83	58
Net loss from other financial instruments at fair value through profit and loss	4	**(112)**	**(112)**	(337)	(337)
Total net income		**15,085**	**14,966**	15,040	14,870
Administrative expenses	5	**(11,749)**	**(11,738)**	(11,328)	(11,300)
Depreciation and amortisation	16/17	**(679)**	**(679)**	(1,010)	(1,010)
Operating profit before impairment losses and provisions		**2,657**	**2,549**	2,702	2,560
Provisions for liabilities	24	**(3)**	**(3)**	25	25
Impairment (charge)/credit on loans and advances	14	**(305)**	**(304)**	258	257
Profit before tax		**2,349**	**2,242**	2,985	2,842
Tax expense	8	**(423)**	**(399)**	(565)	(542)
Profit for the financial year		**1,926**	**1,843**	2,420	2,300

Other Comprehensive Income

	Notes	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Profit for the financial year		**1,926**	**1,843**	2,420	2,300
Changes in fair value of debt securities and treasury bills:					
- valuation (losses)/gains taken to equity		**(10)**	**(10)**	47	47
Actuarial loss recognised on the pension scheme liability	29	**(3,014)**	**(3,014)**	(179)	(179)
Taxation credit on Other Comprehensive Income	8	**645**	**645**	30	30
Total Comprehensive (Loss)/Income for the year		**(453)**	**(536)**	2,318	2,198

The notes on pages 86 to 114 form an integral part of these Accounts.

09

Statement of Changes in Equity

Statement of Changes in Equity

Group 2019	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2019		**69,165**	**(19)**	**69,146**
Profit for the year		2,420	–	2,420
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(179)	–	(179)
Movement in deferred tax relating to the Pension Scheme		30	–	30
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		–	47	47
Other Comprehensive Income for the year		**(149)**	**47**	**(102)**
Balance as at 31 December 2019		**71,436**	**28**	**71,464**
Group 2020				
Balance as at 1 January 2020		**71,436**	**28**	**71,464**
Profit for the year		1,926	–	1,926
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(3,014)	–	(3,014)
Movement in deferred tax relating to the Pension Scheme		645	–	645
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		–	(10)	(10)
Other Comprehensive Income for the year		**(2,369)**	**(10)**	**(2,379)**
Balance as at 31 December 2020		**70,993**	**18**	**71,011**

The notes on pages 86 to 114 form an integral part of these Accounts.

Society 2019	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2019		**67,052**	**(19)**	**67,033**
Profit for the year		2,300	–	2,300
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(179)	–	(179)
Movement in deferred tax relating to the Pension Scheme		30	–	30
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		–	47	47
Other Comprehensive Income for the year		**(149)**	**47**	**(102)**
Balance as at 31 December 2019		**69,203**	**28**	**69,231**
Society 2020				
Balance as at 1 January 2020		**69,203**	**28**	**69,231**
Profit for the year		1,843	–	1,843
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(3,014)	–	(3,014)
Movement in deferred tax relating to the Pension Scheme		645	–	645
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		–	(10)	(10)
Other Comprehensive Income for the year		**(2,369)**	**(10)**	**(2,379)**
Balance as at 31 December 2020		**68,677**	**18**	**68,695**

The notes on pages 86 to 114 form an integral part of these Accounts.


Furness
BUILDING SOCIETY
Furness

10

Statement of Financial Position

Statement of Financial Position

For the year ended 31 December 2020

Assets	Notes	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Liquid assets:					
Cash in hand and balances with the Bank of England	10	**164,856**	**164,856**	91,261	91,261
Treasury bills and similar securities	9	**2,595**	**2,595**	2,663	2,663
Loans and advances to credit institutions	10	**11,644**	**11,377**	10,310	10,041
Debt securities	11	**5,722**	**5,722**	11,753	11,753
Derivative financial instrument assets	12	**273**	**273**	337	337
Loans and advances to customers:					
Loans fully secured on residential property	13	**906,697**	**903,325**	877,758	873,924
Loans fully secured on land	13	**4,406**	**4,406**	4,734	4,734
Investments in subsidiary undertakings	15	**–**	**1,292**	–	1,826
Other assets	18	**1,832**	**1,832**	2,561	2,557
Tangible fixed assets	17	**1,266**	**1,266**	1,600	1,600
Intangible fixed assets	16	**626**	**626**	277	277
Prepayments and accrued income	19	**768**	**768**	557	557
Total assets		**1,100,685**	**1,098,338**	1,003,811	1,001,530
Liabilities					
Shares	20	**849,463**	**849,463**	758,320	758,320
Amounts owed to credit institutions		**9,026**	**9,026**	7,036	7,036
Amounts owed to other customers	21	**154,902**	**154,902**	155,078	155,078
Derivative financial instrument liabilities	12	**3,294**	**3,294**	947	947
Other liabilities	22	**973**	**955**	609	577
Accruals and deferred income	23	**1,183**	**1,170**	1,621	1,605
Provisions for liabilities	24	**156**	**156**	172	172
Retirement benefit obligations	29	**5,684**	**5,684**	3,575	3,575
Subordinated liabilities	26	**4,993**	**4,993**	4,989	4,989
Total liabilities		**1,029,674**	**1,029,643**	932,347	932,299
Reserves					
General reserves		**70,993**	**68,677**	71,436	69,203
Available-for-sale reserves		**18**	**18**	28	28
Total reserves attributable to members of the Society		**71,011**	**68,695**	71,464	69,231
Total reserves and liabilities		**1,100,685**	**1,098,338**	1,003,811	1,001,530

The notes on pages 86 to 114 form an integral part of these Accounts.

The Accounts were approved by the Board of Directors on 15 March 2021 and were signed on its behalf by:

G M Berville
Chairman

K L Rebecchi
Vice Chairman

C M Harrison
Chief Executive

11

Group Cash Flow Statement

Group Cash Flow Statement

Cash flows from operating activities	Notes	Group 2020 £000	Group 2019 £000
Profit before tax		**2,349**	2,985
Adjustments for:			
Depreciation and amortisation	16/17	**679**	1,010
Loss on disposal of tangible fixed assets		**–**	16
Interest on subordinated debt	3	**338**	355
Increase/(decrease) in impairment of loans and advances	14	**305**	(258)
Total		**3,671**	4,108
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments, accrued income and other assets		**897**	(534)
(Decrease)/increase in accruals, deferred income and other liabilities		**(107)**	229
Increase in loans and advances to customers		**(26,504)**	(56,317)
Increase in shares		**91,143**	22,908
Increase/(decrease) in amounts owed to credit institutions and other customers		**1,814**	(17,960)
Increase in loans and advances to credit institutions		**(1,548)**	(2,238)
Decrease in retirement benefit obligation		**(905)**	(865)
Taxation paid		**(57)**	(855)
Net cash generated by/(used in) operating activities		**64,733**	(55,632)
Cash flows from investing activities			
Disposal of debt securities	11	**6,009**	7,516
Purchase of tangible fixed assets	17	**(178)**	(1,281)
Disposal of tangible fixed assets	17	**–**	10
Purchase of intangible assets	16	**(516)**	(98)
Net cash generated by investing activities		**5,315**	6,147
Interest paid on subordinated debt	3	**(338)**	(355)
Net increase/(decrease) in cash and cash equivalents		**73,381**	(45,732)
Cash and cash equivalents at 1 January		**97,537**	143,269
Cash and cash equivalents at 31 December	**10**	**170,918**	97,537

The notes on pages 86 to 114 form an integral part of these Accounts.

Always with your interest at heart

12

Notes to the Accounts

01 | Principal Accounting Policies

1.1 General information

Furness Building Society is incorporated in the United Kingdom under the Building Societies Act 1986. The address of its registered office is 51-55 Duke Street, Barrow-in-Furness, Cumbria LA14 1RT.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.2 Basis of preparation

Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Northern Ireland' (FRS 102), and in accordance with the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998. The Society has also chosen to apply the recognition and measurement provisions of IAS 39, 'Financial Instruments: Recognition and measurement'.

The Society is included in the consolidated Annual Accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.9 to 1.13. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society Annual Accounts have been applied:

- No separate Society Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

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

1.3 Going concern

Annual Accounts have been prepared on a going concern basis as set out in the Directors' Report on page 30. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. In addition, there must be no indication from our regulators that they doubt our ability to continue as a going concern.

Covid-19 was considered as a part of the overall going concern assessment, including the impact on the Society's liquidity, capital position and operational resilience. The Board has considered a number of stress scenarios and has concluded the assumptions in the assessment are relevant and the Society has sufficient capital and liquidity to continue as a going concern.

1.4 Basis of consolidation

The accounting policies below and the Statement of Comprehensive Income and Statement of Financial Position incorporate the Society and its subsidiary undertakings (collectively referred to as the Group) all of which have year-ends of 31 December. Uniform accounting policies are used throughout the Group and are consistent with the prior year. Investments in subsidiary undertakings are stated at cost less any provision for impairment.

1.5 Interest

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

The calculation of the effective interest rate includes transaction costs and fees 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 EIR policy remains consistent with prior years.

1.6 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.4).

Other fees receivable are recognised on the accruals basis when all contractual obligations have been fulfilled.

Other fees payable are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates, and are inclusive of VAT where applicable.

1.7 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or Other Comprehensive Income.

Current taxation

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 Statement of Financial Position date, and any adjustment to tax payable in respect of previous years. Corporation tax is charged on the profit on ordinary activities for the year as adjusted for taxation purposes.

Deferred taxation

Provision for deferred tax is made on a non-discounted basis in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in Annual Accounts. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the Annual Accounts. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 Statement of Financial Position date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset.

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

1.8 Financial assets

At initial recognition the Group classifies non-derivative financial assets either as loans and receivables or as available-for-sale assets.

No assets have been classified as held to maturity.

a) Loans and receivables

'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. The Group's loans and advances to credit institutions and customers are classified as loans and receivables.

b) Available-for-sale financial assets

'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 treasury bills, gilts and debt securities. All available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest rate method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

c) Financial assets at fair value through profit or loss

The Group uses derivative financial instruments only for risk management purposes, and not for trading purposes. Derivatives are recognised at fair value in the Statement of Financial Position with the gain or loss on remeasurement 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged items, 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 Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed in d) below.

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

The Group enters into credit support agreements, which protect against counterparty default in respect of hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest income'.

1.9 Term Funding Scheme (TFS), Term Funding Scheme with additional incentives for SMEs (TFSME) and Sterling Monetary Framework (SMF)

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the TFS/TFSME/SMF are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. TFS/TFSME/SMF borrowings are recognised in 'Amounts owed to other customers'.

1.10 Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest rate method, except for those financial liabilities measured at fair value through Profit or Loss.

1.11 Derecognition of financial assets and liabilities

The Group 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 Group 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 and loss.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

1.12 Impairment of financial assets

a) Assets carried at amortised cost

Individual assessments are made of all loans and advances against properties and land which are in possession, in arrears, are subject to forbearance activities or other significant cases of concern. Individual impairment allowances are made against those loans and advances where there is objective evidence of impairment, which may include:

- significant financial difficulty of the borrower/issuer;
- deterioration in payment status;
- renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/ forbearance to the borrower or issuer;
- becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- any other information discovered during regular review suggesting that a loss is likely.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of any discount which may be needed against the value of the property at the Statement of Financial Position date thought necessary to achieve a sale and anticipated realisation costs.

In addition the Group assesses at least quarterly whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Group measures the amount of impairment loss by applying estimated loss factors based on the Group's experience of default, loss emergence periods, the effect of movements in house prices and any adjustment for the expected forced sales value. Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, management may elect to apply an overlay to the impairment allowance.

The amount of impairment loss is recognised immediately through the Statement of Comprehensive Income and a corresponding reduction in the value of the financial asset is recognised.

b) Available-for-sale assets

The Group assesses at each Statement of Financial Position date whether there is objective evidence that an available-for-sale asset or group of available-for-sale assets is impaired.

Available-for-sale assets are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of those assets. Loss events may include default of a counterparty or disappearance of an active market for the assets. Impairment is measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised.

1.13 Offsetting

Financial assets and liabilities are offset and the net amounts presented in the Annual Accounts only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and balances with the Bank of England plus loans and advances to credit institutions with an original maturity of less than 3 months. Cash pledged with credit institutions as collateral in respect of derivative contracts is not included in these balances.

1.15 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use.

The Group capitalises the cost of additions and major alterations to office premises and equipment. In the case of freehold and leasehold premises with a term remaining in excess of 50 years, depreciation of the original cost of these is charged to the Statement of Comprehensive Income over the lower of 50 years and their estimated useful life.

The cost of other fixed assets is written off on a straight line basis over the estimated useful lives as follows:

- Equipment, fixtures, fittings and vehicles are written off over periods between 2 and 10 years or their estimated useful life if lower.
- Leasehold premises with less than 50 years unexpired are written off over the unexpired period of the lease.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The effect of any change in useful life is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Comprehensive Income and included in 'Other operating income/(charge)'.

1.16 Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over the estimated useful lives of the software, which are between 3 and 5 years.

Amortisation is charged to depreciation and amortisation in the Statement of Comprehensive Income. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.17 Leasing

All payments under operating lease contracts are charged to the Statement of Comprehensive Income on a straight line basis over the life of the lease.

1.18 Liquid assets

Debt securities are initially measured at fair value, which is normally the transaction price to the Group, adjusted to exclude interest accrued at the date of purchase. Such assets are subsequently carried at fair value and the changes in fair value are recognised through the available-for-sale reserve. Provision is made for any potential impairment in value if necessary. Where there is a permanent impairment of a liquid asset, a provision is made so as to write down the cost of the security to its recoverable amount. Other liquid assets are stated at the lower of the cost and net realisable value.

1.19 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

a) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

b) Pension costs

i. Defined Benefit Plan

The Group operates a defined benefit pension scheme and the assets are held in a separate trustee administered fund. Included within the Statement of Financial Position is the Group's net obligation calculated as the present value of the defined benefit obligation less the fair value of plan assets less any unrecognised past service costs.

Any remeasurements of the net pension obligation are recognised in the Statement of Comprehensive Income. Actuarial gains or losses are recognised in Other Comprehensive Income. Any past service costs or interest costs, which reflect the increase in the defined obligation which arises as benefits are one period closer to settlement, are recognised in operating profit.

ii. Defined Contribution Scheme

The Group also operates a contributory defined contribution pension scheme. The assets of which are held separately from those of the Group. For this scheme the cost is charged to the Statement of Comprehensive Income as contributions become due. The amount charged represents the contributions payable to the scheme in respect of the accounting period.

1.20 Provisions

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.

1.21 Dividends

On occasions the Society's wholly owned subsidiaries may make dividend payments to their parent. Such dividends are decided at the discretion of the subsidiaries' Boards of Directors and are reflected in the Annual Accounts of the respective entities when this occurs. Dividends are only recognised by the Society when approved and paid.

1.22 Critical judgements and estimates in applying the accounting policy

The Group makes estimates and judgements that affect the reported results and amounts of assets and liabilities. These are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) Impairment losses on loans and advances to customers

The Group reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement. Impairment allowances are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates, house prices and forced sale discount), customer behaviour (for example, default rates) and the length of time expected to complete the sale of properties in possession. Impairment allowances are therefore affected by changes to these assumptions.

A key assumption is the expected level of defaults in each category of impairment – the probability of default. The Group has calculated collective default rates from its experience over recent years. During that period the Group has had a low number of possessions, and in addition the default rates may have been depressed by the Group's forbearance policy. As a result management has applied an uplift to the actual default rates experienced in its collective impairment assumptions.

The collective impairment policy remained consistent with the prior year. An overlay has been applied to the collective provision to recognise the increased credit risk of customers who have taken a payment holiday during 2020. During 2020, a number of changes were made to specific provisioning policy. Individual credit risk probabilities of default are now used for arrears and stressed watch list specific provisions. In 2020, the Society changed its definition of default from 180 days in arrears to 90 days in arrears to bring it in line with market practices. This has resulted in an increase to specific provisions during 2020. Other adjustments are made, for example, to the valuation and cure rate, for mortgages identified as requiring individual assessment. A number of updated valuations were obtained for mortgages secured on commercial property which had a high LTV or were considered likely to have seen a significant change in their value, this which had an impact on specific impairments.

The Group has applied a sensitivity analysis to its critical judgements. A movement to the Society's existing probability of default assumption of 0.1 percentage points would change the collective impairment provision on loans and advances to customers by +/- £0.03m. A movement to the existing forced sale discount of 1.0 percentage points would result in a change to the total provision requirement of +/- £0.08m.

b) Effective Interest Rate (EIR)

The calculation of an Effective Interest Rate (EIR) requires the Society to undertake an assessment of the expected lives of mortgages and mortgage related fees to be spread over the lives of products. The EIR policy remains consistent with the prior year.

i) Expected Mortgage Lives

In determining the average expected lives of mortgage assets, the Group uses historical and forecast redemption and product switch data as well as management judgement. The expected lives of mortgage assets are periodically reassessed for reasonableness as any variation in the average expected lives will change the Effective Interest Rate (EIR) carrying value in the Statement of Financial Position and the timing of the recognition of interest income. A movement of 0.25 months to the average expected life of mortgages would change the EIR carrying value by +/- £0.18m. The Group recognises, due to the level of uncertainty in the economy, there is an increased risk cash flows may fluctuate due to mortgage lives behaving differently to expected.

ii) Mortgage Related Fee

The methodology for calculating the movement in EIR during the year for both interest and mortgage fees remains unchanged.

c) Defined Benefit Pension Scheme Valuation

The Group operates a defined benefit pension scheme. Significant judgements have to be exercised in estimating the value of the liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in Note 29.

Of these assumptions, changes in the discount rate and inflation have the most material impact on the net pension obligation. A movement in the discount rate of +0.5% decreases the pension deficit by £3.3m. A reduction in the discount rate of -0.5% increases the pension deficit by £3.8m. Following a High Court ruling in October 2018 on the equalisation of Guaranteed Minimum Pensions for Lloyd's Bank schemes, the Society took external actuarial advice and included an estimated obligation cost of the ruling as a past service cost in 2018 operating profit.

d) Fair value of derivatives and financial assets

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

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

1.23 Country by Country Reporting

The Capital Requirements Regulations require the Group to disclose the information below as part of 'County by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Director's Report. The Group operates entirely in the UK and so no further Country by Country information has been presented.
- Average number of employees: information is disclosed in Note 6.
- Turnover is equivalent to operating income items disclosed in the Group Statement of Comprehensive Income, comprising net interest income, fees and commissions receivable and payable and other operating (charge)/income.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Statement of Comprehensive Income.
- Corporation tax paid: as disclosed in the Group Cash Flow Statement.
- Public subsidies received: none received.

02 | Interest Receivable and Similar Income

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
On loans fully secured on residential property	**24,364**	**24,231**	24,765	24,604
On other loans				
Fully secured on land	**202**	**202**	243	243
To subsidiary undertakings	**–**	**10**	–	16
On debt securities				
Interest and other income	**44**	**44**	179	179
On treasury bills and similar income				
Interest and other income	**24**	**24**	32	32
On other liquid assets				
Interest and other income	**219**	**219**	839	839
Net expense on financial instruments	**(1,277)**	**(1,277)**	(359)	(359)
Total	**23,576**	**23,453**	25,699	25,554

03 | Interest Payable and Similar Charges

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
On shares held by individuals	**6,667**	**6,667**	8,175	8,175
On other shares	**3**	**3**	4	4
On subordinated liabilities	**338**	**338**	355	355
On deposits and other borrowings	**875**	**875**	1,402	1,402
Total	**7,883**	**7,883**	9,936	9,936

04 | Net Loss from other Financial Instruments at Fair Value Through Profit and Loss

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Derivatives in designated fair value hedge relationships	**(2,292)**	**(2,292)**	(1,670)	(1,670)
Adjustments to hedged items in fair value hedge accounting relationships	**2,173**	**2,173**	1,399	1,399
Derivatives not in designated fair value hedge relationships	**7**	**7**	(66)	(66)
Total	**(112)**	**(112)**	(337)	(337)

05 | Administrative Expenses

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Staff costs (Note 6)	**7,035**	**7,035**	6,961	6,961
Other expenses	**4,714**	**4,703**	4,367	4,339
Total	**11,749**	**11,738**	11,328	11,300
Other expenses include				
Audit fees (excluding VAT):				
Audit of Society and Group by Society's auditors	**148**	**148**	200	200
Audit of subsidiaries	**10**	**–**	10	–
Amounts payable under operating leases	**196**	**196**	155	155

06 | Staff Numbers and Costs

The average number of persons employed by the Group and Society (including Executive Directors) during the year was as follows:

Full Time	Number	Number	Number	Number
Principal office and administration centre	**82**	**82**	78	78
Branch offices	**26**	**26**	26	26
Total	**108**	**108**	104	104
Part Time				
Principal office and administration centre	**30**	**30**	30	30
Branch offices	**30**	**30**	33	33
Total	**60**	**60**	63	63

The aggregated costs of these persons were as follows	£000	£000	£000	£000
Wages and salaries	**5,942**	**5,942**	5,960	5,960
Social security costs	**560**	**560**	558	558
Other pension costs	**533**	**533**	443	443
Total	**7,035**	**7,035**	6,961	6,961

07 | Emoluments of and Transactions with Directors

Total Directors' emoluments amounted to £752k (£962k: 2019). Full details are given in the Directors' Remuneration Report on pages 60 to 65.

Under the Society rules, all Directors are required to hold a savings balance of at least £1,000. Savings balances were £140k as at 31 December 2020 (£205k: 2019) and are held on normal commercial terms.

At 31 December 2020 there was 1 (1: 2019) outstanding loan granted in the ordinary course of business to Directors amounting to £19k (£66k: 2019). A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the day of the Annual General Meeting.

08 | Tax on profit on ordinary activities

Current Tax	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Current tax on income for the period	**256**	**238**	338	315
Adjustments in respect of prior periods	**13**	**11**	17	17
Total current tax	**269**	**249**	355	332
Deferred tax				
(Reversal)/origination of timing differences	**(456)**	**(456)**	217	217
Adjustment in respect of previous years	**(9)**	**(13)**	(11)	(11)
Effect of changes in tax rates	**(26)**	**(26)**	(26)	(26)
Total deferred tax	**(491)**	**(495)**	180	180
Total Tax	**(222)**	**(246)**	535	512

8.1 Tax recognised in Statement of Comprehensive Income

	2020			2019		
Group	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss	**269**	**154**	**423**	355	210	565
Recognised in Other Comprehensive Income	**–**	**(645)**	**(645)**	–	(30)	(30)
Total tax	**269**	**(491)**	**(222)**	355	180	535
Society						
Recognised in profit and loss	**249**	**150**	**399**	332	210	542
Recognised in Other Comprehensive Income	**–**	**(645)**	**(645)**	–	(30)	(30)
Total tax	**249**	**(495)**	**(246)**	332	180	512

8.2 Factors affecting tax charge for the year

The tax assessed for the year differs to the standard rate of Corporation tax in the UK 19% (19%: 2019). The differences are explained below:

Total tax reconciliation	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Profit on ordinary activities before tax	**2,349**	**2,242**	2,985	2,842
Corporation tax at 19% (19%: 2019)	**446**	**426**	567	540
Effects of:				
Adjustment to tax charge in respect of previous periods	**4**	**(2)**	6	6
Tax rate changes	**(26)**	**(26)**	(26)	(26)
Deferred tax not recognised	**–**	**–**	(1)	–
Expenses not deductible	**–**	**–**	18	18
Other	**(1)**	**1**	1	4
Tax Recognised in Profit & Loss	**423**	**399**	565	542

The Group expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.
The Corporation tax rate for the year ended 31 December 2020 was 19%. The Corporation Tax rate of 19% was enacted with effect from 1 April 2017 and the Finance Act 2016 legislated the UK Corporation Tax rate to decrease to 17% from 1 April 2020. However, on the 17th March 2020, using the Provisional Collection of Taxes Act 1968, the UK Government cancelled the proposed drop in Corporation Tax rate to 17%.
The movements in deferred taxation are disclosed in Note 25.

09 | Treasury Bills and Similar Securities

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Gilts	**2,595**	**2,595**	2,663	2,663
Movements during the year of debt are analysed as follows:				
At 1 January	**2,663**	**2,663**	4,744	4,744
Disposals and maturities	**–**	**–**	(2,029)	(2,029)
Movement in premium and accrued interest	**(69)**	**(69)**	(56)	(56)
Net gain from changes in fair value recognised in Other Comprehensive Income	**1**	**1**	4	4
Total At 31 December	**2,595**	**2,595**	2,663	2,663

10 | Loans and Advances to Credit Institutions

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Repayable on demand	**6,062**	**5,795**	6,276	6,007
Cash pledged as collateral against derivative contracts	**4,685**	**4,685**	3,407	3,407
Other loans and advances	**897**	**897**	627	627
Total	**11,644**	**11,377**	10,310	10,041

10.1 Cash and cash equivalents

The totals for cash and cash equivalents included in the cash flow statements for each year comprise the following balances:

	Group 2020 £000	Group 2019 £000
Cash in hand and balances with the Bank of England	**164,856**	91,261
Loans and advances to credit institutions:		
Repayable on demand	**6,062**	6,276
Total	**170,918**	97,537

11 Debt Securities

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Issued by UK banks and building societies	**5,722**	**5,722**	7,746	7,746
Issued by multilateral European development bank	-	-	4,007	4,007
Total	**5,722**	**5,722**	11,753	11,753
Transferable Debt Securities Comprise				
Listed on a recognised investment exchange	**5,722**	**5,722**	11,753	11,753
Transferable securities held as financial fixed assets at fair value	**5,722**	**5,722**	11,753	11,753

11.1 Movements during the year of debt securities

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

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
At 1 January	**11,753**	**11,753**	17,167	17,167
Disposals and maturities	**(6,009)**	**(6,009)**	(5,487)	(5,487)
Movement in premium and accrued interest	**(11)**	**(11)**	30	30
Net (loss)/gains from changes in fair value recognised in Other Comprehensive Income	**(11)**	**(11)**	43	43
At 31 December	**5,722**	**5,722**	11,753	11,753

12 Derivative Financial Instruments Group and Society

	Contractual amount £m	Fair value assets £000	Fair value liabilities £000
At 31 December 2020			
Unmatched derivatives - interest rate swaps	**14**	-	**(27)**
Derivatives designated as fair value hedges – interest rate swaps	**253**	**273**	**(3,267)**
Total	**267**	**273**	**(3,294)**
At 31 December 2019			
Unmatched derivatives - interest rate swaps	**55**	**126**	**(20)**
Derivatives designated as fair value hedges – interest rate swaps	**330**	**211**	**(927)**
Total	**385**	**337**	**(947)**

13 | Loans & Advances to Customers

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Loans fully secured on residential property	**906,697**	**903,325**	877,758	873,924
Loans fully secured on land	**4,406**	**4,406**	4,734	4,734
Total loans	**911,103**	**907,731**	882,492	878,658

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Total loans before adjustments	**907,869**	**904,493**	881,080	877,244
Effective interest rate adjustment	**1,635**	**1,635**	1,702	1,702
Provision for impairment losses on loans and advances	**(1,040)**	**(1,036)**	(756)	(754)
Fair value adjustment for hedged risk	**2,639**	**2,639**	466	466
Total	**911,103**	**907,731**	882,492	878,658

The Society has pledged as collateral £197.7m (£249.4m: 2019) of mortgages to the Bank of England under the Term Funding Scheme.

14 | Allowance for Impairment

	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
Group							
At 1 January 2020	132	482	98	44	**230**	**526**	**756**
Net write-offs and recoveries	(20)	-	-	(1)	**(20)**	**(1)**	**(21)**
Balance	112	482	98	43	**210**	**525**	**735**
Impairment allowance	422	(162)	88	(43)	**510**	**(205)**	**305**
At 31 December 2020	**534**	**320**	**186**	**-**	**720**	**320**	**1,040**
Society							
At 1 January 2020	132	480	98	44	**230**	**524**	**754**
Net write-offs and recoveries	(21)	-	-	(1)	**(21)**	**(1)**	**(22)**
Balance	111	480	98	43	**209**	**523**	**732**
Impairment allowance	422	(163)	88	(43)	**510**	**(206)**	**304**
At 31 December 2020	**533**	**317**	**186**	**-**	**719**	**317**	**1,036**

These provisions have been deducted from the appropriate loans in the Statement of Financial Position.

15 | Investment In Subsidiary Undertakings

	Society 2020 £000	Society 2019 £000
Loan to subsidiary undertaking	**1,292**	1,826
Movements at cost in the above loan during the year are as follows:		
At 1 January	**1,826**	2,096
Repayments	**(534)**	(270)
Total at 31 December	**1,292**	1,826

The Society has the following subsidiary undertakings in which it directly holds all of the issued shares at a total cost of £6. Each is a company within the meaning of the Companies Act 2006 and is incorporated in the United Kingdom.

15.1 Subsidiary Undertakings

Company name	Class of Share Held	Society's Interest	Cost
Furness Mortgage Services Limited	Ordinary	100%	£1
Furness Independent Financial Advisers Limited	Ordinary	100%	£1
Furness Authorised Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Services Limited	Ordinary	100%	£1
Ultimate Mortgages Limited	Ordinary	100%	£1

With the exception of Furness Mortgage Services Limited, none of the subsidiary undertakings carried on business during the year. The principal activity of Furness Mortgage Services Limited is management of secondary mortgage portfolios in the United Kingdom.
All of the Society's subsidiary companies share the same registered address as the Society.

16 | Intangible Assets Group and Society

Cost	Software £000
At 1 January 2020	3,963
Additions	516
Total at 31 December 2020	**4,479**
Depreciation	
At 1 January 2020	3,686
Charges in year	167
Total at 31 December 2020	**3,853**
Net book value	
Total at 31 December 2020	**626**
Total at 31 December 2019	277

17 | Tangible Fixed Assets Group and Society

Cost	Land & buildings £000	Equipment, fixtures & fittings £000	Total £000
At 1 January 2020	1,427	6,801	8,228
Additions	-	178	178
Total at 31 December 2020	**1,427**	**6,979**	**8,406**
Depreciation			
At 1 January 2020	1,197	5,431	6,628
Charges in year	43	469	512
Total at 31 December 2020	**1,240**	**5,900**	**7,140**
Net Book Value			
Total at 31 December 2020	**187**	**1,079**	**1,266**
Total at 31 December 2019	230	1,370	1,600

17.1 Net book value of land and buildings comprises:

	Society 2020 £000	Society 2019 £000
Freehold	**187**	230
Land and buildings occupied by the Group/Society for its own activities	**110**	153

18 | OTHER ASSETS

Due within one year	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Corporation tax	-	-	197	197
Others	**525**	**525**	1,548	1,548
Due after one year				
Deferred tax asset (Note 25)	**1,307**	**1,307**	816	812
Total	**1,832**	**1,832**	2,561	2,557

19 Prepayments and Accrued Income

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Rent and rates paid in advance	**57**	**57**	72	72
Fees and subscriptions paid in advance	**148**	**148**	88	88
IT support fees paid in advance	**525**	**525**	326	326
Other	**38**	**38**	71	71
Total	**768**	**768**	557	557

20 Shares Held

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Held by individuals	**849,157**	**849,157**	757,951	757,951
Other shares	**306**	**306**	369	369
Total	**849,463**	**849,463**	758,320	758,320

21 Amounts Owed to Other Customers

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Amounts owed to other customers	**154,902**	**154,902**	155,078	155,078

Included in the amounts above for 2020 is £90m (£90m: 2019) borrowed from the Bank of England. Note £45m was refinanced during the year into the new Term Funding Scheme with additional incentives for SMEs (TFSME) in advance of the contractual deadline. £45m remains outstanding on the orginal Term Funding Scheme.

22 | Other Liabilities

Other Liabilities Comprise	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Corporation tax	**38**	**19**	22	-
Other creditors	**935**	**936**	587	577
Total	**973**	**955**	609	577

23 | Accruals and Deferred Income

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Staff related costs	**369**	**369**	797	797
Other administrative and operating costs	**700**	**687**	665	653
Others	**114**	**114**	159	155
Total	**1,183**	**1,170**	1,621	1,605

24 | Provisions For Liabilities Group and Society

	Regulatory £000	Onerous Lease and Dilapidations £000	Total £000
At 1 January 2020	57	115	**172**
Amounts charged in the year	3	-	**3**
Amounts paid in the year	(3)	(16)	**(19)**
At 31 December 2020	57	99	**156**

Regulatory

This provision relates to compensation that may be payable as a result of previous business activity.

Onerous Lease and Dilapidations

The Society has obligations under certain lease contracts for dilapidation costs. The 2019 provision includes onerous lease costs associated with the closure of branches in 2016.

25 | Deferred Taxation Asset

The elements of deferred taxation are as follows:	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Difference between accumulated depreciation and amortisation and capital allowances	**27**	**27**	(14)	(18)
Deferred tax asset relating to FRS 102 transition	**149**	**149**	166	166
Deferred tax asset relating to payroll and pension liabilities	**1,131**	**1,131**	664	664
	1,307	**1,307**	816	812

25.1 Deferred taxation movement in the year

The elements of deferred taxation are as follows:	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
At 1 January	**816**	**812**	996	992
Amount charged/(released) to Statement of Comprehensive Income*	**491**	**495**	(180)	(180)
At 31 December	**1,307**	**1,307**	816	812

The deferred tax asset as at 31 December 2020 has been calculated using the rates substantively enacted for the expected periods of utilisation of 19% (17%: 2019).
*See Note 8.1 for further details

26 | Subordinated Liabilities

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Sterling subordinated loan repayable 25 June 2022	**5,000**	**5,000**	5,000	5,000
Less unamortised issuance costs	**(7)**	**(7)**	(11)	(11)
Total	**4,993**	**4,993**	4,989	4,989

Subordinated liabilities are unsecured and denominated in sterling. Interest rate payments are made at an agreed margin above the standard variable mortgage rate of the top 5 building societies ranked by asset size. The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, creditors and investing members of the Society.

27 | Financial Commitments

Future minimum lease payments under non-cancellable operating leases	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Amounts payable within 1 year	**278**	**278**	285	285
Amounts payable within 1 to 5 years	**774**	**774**	923	923
Amounts payable after 5 years	**11**	**11**	11	11
Total	**1,063**	**1,063**	1,219	1,219

28 | 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 Group is a retailer of financial instruments in the form of mortgages and savings. The Group also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including establishing risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Society's Assets and Liabilities Committee, which is charged with the responsibility for managing the Group's balance sheet exposure and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

LIBOR

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of the on-going interest rate benchmark reforms. The amendments are relevant to the Society given that it hedges and applies hedge accounting to its LIBOR exposures.

The application of the amendments impacts the Society's accounting in the following ways:

- The Society has fixed rate advances in the form of retail mortgage lending to customers which it includes in a portfolio fair value hedge of LIBOR risk component of those advances. This benchmark interest rate component was separately identifiable at the time of the initial designation, and as noted above, the amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, LIBOR, may no longer be separately identifiable; and
- The Society will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship is subject to interest rate benchmark reforms.

The Society will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Society is exposed ends. The Society expects this uncertainty will continue until the Society's contracts that reference LIBOR are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

In August 2020, the IASB issued Interest Rate benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The second phase of amendments focuses on the issues arising at the time of replacement of LIBOR. The amendments are effective for annual accounting periods beginning on or after 1 January 2021.

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

	Society 2020 £000	Society 2019 £000
Notional value of LIBOR swap contracts used in hedges	**266,500**	385,000
Notional value of SONIA swap contracts used in hedges	**-**	-
Total notional value of swap contracts used in hedges held at 31 December	**266,500**	385,000
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	**107,500**	231,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	**159,000**	154,000

28.1 Carring value of loans and advances hedged by swaps

	Mortgage Assets		Retail Liabilities	
	2020 £000	2019 £000	2020 £000	2019 £000
Carrying value of loans and advances hedged by LIBOR swap contracts	**200,405**	270,726	**15,460**	23,786
Of which:				
Carrying value of loans and advances held by LIBOR swap contracts which mature before the end of 2021	**67,470**	139,500	**-**	9,293
Carrying value of loans and advances held by LIBOR swap contracts which mature after 2021	**132,935**	131,226	**15,460**	14,493

28.2 Derivatives

Derivatives used by the Group are exclusively interest rate swaps used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products. The Board of Directors has authorised the use of derivatives in accordance with the Building Societies Act 1986. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. The Accounting Policies for hedging contracts are described in the accounting policies in Note 1. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

The recognition and measurement of financial instruments is set out in the Accounting Policies (Note 1). The table below shows the assets and liabilities of the Group assigned to the categories by which they are recognised and measured. The differences between Group and Society are immaterial.

At 31 December 2020	**Measured at amortised cost**		**Measured at fair value**			**Total**
FINANCIAL ASSETS	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	164,856	-	-	-	**164,856**
Treasury bills and gilts	-	-	2,595	-	-	**2,595**
Loans and advances to credit institutions	11,644	-	-	-	-	**11,644**
Debt securities	-	-	5,722	-	-	**5,722**
Derivative financial instruments	-	-	-	273	-	**273**
Loans and advances to customers	911,103	-	-	-	-	**911,103**
Total financial assets	922,747	164,856	8,317	273	-	**1,096,193**
Non-financial assets	-	4,492	-	-	-	**4,492**
Total assets	**922,747**	**169,348**	**8,317**	**273**	**-**	**1,100,685**
FINANCIAL LIABILITIES						
Shares	-	849,463	-	-	-	**849,463**
Amounts owed to credit institutions	-	9,026	-	-	-	**9,026**
Amounts owed to other customers	-	154,902	-	-	-	**154,902**
Derivative financial instruments	-	-	-	3,267	27	**3,294**
Subordinated Liabilities	-	4,993	-	-	-	**4,993**
Total financial liabilities	-	1,018,384	-	3,267	27	**1,021,678**
Non-financial liabilities	-	7,996	-	-	-	**7,996**
Total liabilities	**-**	**1,026,380**	**-**	**3,267**	**27**	**1,029,674**

At 31 December 2019	Measured at amortised cost		Measured at fair value			Total
FINANCIAL ASSETS	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	91,261	-	-	-	**91,261**
Treasury bills and gilts	-	-	2,663	-	-	**2,663**
Loans and advances to credit institutions	10,310	-	-	-	-	**10,310**
Debt securities	-	-	11,753	-	-	**11,753**
Derivative financial instruments	-	-	-	211	126	**337**
Loans and advances to customers	882,492	-	-	-	-	**882,492**
Total financial assets	892,802	91,261	14,416	211	126	**998,816**
Non-financial assets	-	4,995	-	-	-	**4,995**
Total assets	**892,802**	**96,256**	**14,416**	**211**	**126**	**1,003,811**
FINANCIAL LIABILITIES						
Shares	-	758,320	-	-	-	**758,320**
Amounts owed to credit institutions	-	7,036	-	-	-	**7,036**
Amounts owed to other customers	-	155,078	-	-	-	**155,078**
Derivative financial instruments	-	-	-	927	20	**947**
Subordinated Liabilities	-	4,989	-	-	-	**4,989**
Total financial liabilities	-	925,423	-	927	20	**926,370**
Non-financial liabilities	-	5,977	-	-	-	**5,977**
Total liabilities	**-**	**931,400**	**-**	**927**	**20**	**932,347**

28.3 Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as outlined below. Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio consists principally of debt securities and treasury bills for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. We have evaluated these using estimated credit losses, interest rates and discount rates (eg yield curves). The Group's Level 2 portfolio consists of interest rate swaps for which traded prices are readily available.

Level 3

These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. We have no assets of this type.

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

At 31 December 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities	5,722	-	-	**5,722**
Treasury bills & similar	2,595	-	-	**2,595**
Fair value through profit and loss				
Derivative financial instrument assets	-	273	-	**273**
Total	**8,317**	**273**	**-**	**8,590**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	3,294	-	**3,294**
Total	-	**3,294**	-	**3,294**
At 31 December 2019				
Financial assets				
Available-for-sale				
Debt securities	11,753	-	-	**11,753**
Treasury bills & similar	2,663	-	-	**2,663**
Fair value through profit and loss				
Derivative financial instrument assets	-	337	-	**337**
Total	**14,416**	**337**	**-**	**14,753**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	947	-	**947**
Total	-	**947**	-	**947**

28.4 Financial assets pledged as collateral

The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 31 December 2020 and 2019 is shown in the following table.

	Group 2020 £000	Group 2019 £000
Loans and advances to credit institutions	**4,685**	3,407
Loans and advances to customers	**197,666**	249,363
Total	**202,351**	252,770

Financial assets are pledged as collateral to the Bank of England to support both Term Funding Scheme borrowings and to support contingent liquidity drawdowns if required. Mortgage loans of £197.7m were pledged to the Bank of England as at 31 December 2020. In addition the Society places collateral with a central clearing provider to support initial margin and mark to market movements under derivative contracts used to manage interest rate risk.

28.5 Credit risk

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

All loan applications are assessed with reference to the Group's Lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

The Group enters into credit support agreements, which protect against counterparty default in respect to hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest receivable'.

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

	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Cash in hand and balances with Bank of England	**164,856**	**164,856**	91,261	91,261
Treasury bills and gilts	**2,595**	**2,595**	2,663	2,663
Loans and advances to credit institutions	**11,644**	**11,377**	10,310	10,041
Debt securities	**5,722**	**5,722**	11,753	11,753
Derivative financial instruments	**273**	**273**	337	337
Loans and advances to customers	**911,103**	**907,731**	882,492	878,658
Loans to Subsidiaries	**-**	**1,292**	-	1,826
Total Statement of Financial Position exposure	**1,096,193**	**1,093,846**	998,816	996,539
Off balance sheet exposure – mortgage commitments	**75,299**	**75,299**	72,175	72,175
Total	**1,171,492**	**1,169,145**	1,070,991	1,068,714

28.6 Credit quality analysis of loans and advances to customers

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

	2020		2019	
	Loans fully secured on residential property £000	Loans fully secured on land £000	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	**860,762**	**2,181**	858,303	3,986
Past due but not impaired				
0-60 days	**6,699**	**89**	13,529	352
60-90 days	**857**	**249**	1,054	53
90-180 days	**1,344**	**54**	1,059	-
180 days+	**656**	**-**	184	-
Impaired				
Not past due	**25,613**	**2,019**	1,877	-
0-60 days	**4,843**	**-**	173	266
60-90 days	**1,738**	**-**	-	77
90-180 days	**394**	**-**	-	-
180 days+	**371**	**-**	167	-
Total	**903,277**	**4,592**	876,346	4,734
Allowance for impairment				
Individual	**534**	**186**	132	98
Collective	**320**	**-**	482	44
Total allowance for impairment	**854**	**186**	614	142

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual impairment has been made against that asset. The amount included is the entire loan amount and not just the overdue amount.

28.7 Assets obtained by taking possession of collateral

There were no (no: 2019) financial and non-financial assets obtained during the year by taking possession of collateral held as security against loans and advances and held at year-end.

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

28.8 Collateral held and other credit enhancements

Average loan to value of loans and advances to customers:

Group 2020	Society 2020	Group 2019	Society 2019	Principal type of collateral held
42.9%	**43.0%**	43.3%	43.4%	Property

The Group and Society holds security against its mortgage loans and advances in the form of property collateral in order to mitigate credit risk.

The table opposite analyses the average loan to value of underlying collateral for our loans and advances to customers, based on the indexed valuation. The Society uses the HM Land Registry to revalue property collateral held against individual mortage loans in order to calculate indexed valuations.

LTV ratio	Group 2020 £000	Society 2020 £000	Group 2019 £000	Society 2019 £000
Less than 50%	**356,869**	**353,983**	331,411	328,254
50-70%	**324,888**	**324,398**	310,632	309,953
71-90%	**200,236**	**200,236**	211,793	211,793
91-100%	**25,108**	**25,108**	26,620	26,620
More than 100%	**768**	**768**	624	624
Total	**907,869**	**904,493**	881,080	877,244

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

28.9 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 Group include reduced monthly payment, an arrangement to clear outstanding arrears, capitalisation of arrears or extension of the mortgage term.

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

	Group 2020 Number	Group 2019 Number
Arrangement	**19**	21
Interest Only	**4**	4
Extension of Term	**6**	6
Others	**15**	18
Total	**44**	**49**

The cases above represent total mortgage balances of £3.7m (£2.9m: 2019).

Impairment provisions of £81k (£36k: 2019) are held in respect of these mortgages.

28.10 Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient financial resources available to meet its obligations as they fall due under either normal business conditions or a stressed environment.

It is the Group's policy that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

1. meet day-to-day business needs;
2. meet any unexpected cash needs;
3. maintain public confidence; and
4. ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Group's prudent policy framework, is performed daily. Compliance with these policies is reported regularly to the Board Risk Committee. The Group's Liquidity policy is designed to ensure the Group has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests has been developed as part of the Individual Liquidity Adequacy Assessment (ILAA) process. They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (PRA) and scenarios identified by the Group which are specific to its business model. The stress tests are performed monthly to confirm that liquidity policy remains appropriate.

28.11 Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Group's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

AT 31 DECEMBER 2020

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	164,856	-	-	-	-	**164,856**
Treasury bills and gilts	-	-	2,595	-	-	**2,595**
Loans and advances to credit institutions	6,062	-	-	4,685	897	**11,644**
Debt securities	-	5,722	-	-	-	**5,722**
Derivative financial instruments	-	-	-	273	-	**273**
Loans and advances to customers	-	1,786	8,163	69,258	831,896	**911,103**
Total financial assets	**170,918**	**7,508**	**10,758**	**74,216**	**832,793**	**1,096,193**
Financial liabilities						
Shares	725,025	13,566	38,620	72,252	-	**849,463**
Amounts owed to credit institutions	-	4,022	5,004	-	-	**9,026**
Amounts owed to other customers	23,686	11,345	27,400	92,471	-	**154,902**
Subordinated debt	-	-	-	4,993	-	**4,993**
Derivative financial instruments	-	45	487	2,762	-	**3,294**
Total financial liabilities	**748,711**	**28,978**	**71,511**	**172,478**	**-**	**1,021,678**

AT 31 DECEMBER 2019

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	91,261	-	-	-	-	**91,261**
Treasury bills and gilts	-	-	-	2,663	-	**2,663**
Loans and advances to credit institutions	6,276	-	-	3,407	627	**10,310**
Debt securities	-	4,006	2,015	5,732	-	**11,753**
Derivative financial instruments	-	127	14	196	-	**337**
Loans and advances to customers	-	823	2,788	65,813	813,068	**882,492**
Total financial assets	**97,537**	**4,956**	**4,817**	**77,811**	**813,695**	**998,816**
Financial liabilities						
Shares	649,379	15,515	47,646	45,780	-	**758,320**
Amounts owed to credit institutions	-	3,015	4,021	-	-	**7,036**
Amounts owed to other customers	24,685	4,223	33,600	92,570	-	**155,078**
Subordinated debt	-	-	-	4,989	-	**4,989**
Derivative financial instruments	-	9	168	770	-	**947**
Total financial liabilities	**674,064**	**22,762**	**85,435**	**144,109**	**-**	**926,370**

The tables below set out maturity analysis for financial liabilities that shows the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date.

GROUP AT 31 DECEMBER 2020

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	725,025	13,579	38,801	73,878	-	**851,283**
Amounts owed to credit institutions	-	4,022	5,004	-	-	**9,026**
Amounts owed to other customers	23,686	11,353	27,502	93,827	-	**156,368**
Subordinated debt	-	-	-	5,492	-	**5,492**
Derivative financial instruments	-	45	487	2,762	-	**3,294**
Subtotal	748,711	28,999	71,794	175,959	-	**1,025,463**
Other liabilities	-	-	2,509	-	5,684	**8,193**
Total financial liabilities	**748,711**	**28,999**	**74,303**	**175,959**	**5,684**	**1,033,656**

GROUP AT 31 DECEMBER 2019

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	649,379	15,536	47,962	47,236	-	**760,113**
Amounts owed to credit institutions	-	3,015	4,021	-	-	**7,036**
Amounts owed to other customers	24,685	4,228	33,789	94,635	-	**157,337**
Subordinated debt	-	-	-	5,815	-	**5,815**
Derivative financial instruments	-	9	168	770	-	**947**
Subtotal	674,064	22,788	85,940	148,456	-	**931,248**
Other liabilities	-	-	2,402	-	3,575	**5,977**
Total financial liabilities	**674,064**	**22,788**	**88,342**	**148,456**	**3,575**	**937,225**

28.12 Market risk

Market risk is the risk of changes to the Group's financial condition caused by market interest rates. The Group is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and longterm interest rates and interest rates for different balance sheet elements (basis risk).

The management of interest rate risk is based on a full Statement of Financial Position gap analysis. In addition management review interest rate basis risk. Both sets of results are measured against the risk appetite for market risk these are in turn reviewed monthly and reported to the Board Risk Committee.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. The key scenario that is considered on a monthly basis is that of a 200 basis point (bps) parallel fall or rise in the LIBOR yield curve.

The following is an analysis of the sensitivity of the Group's equity reserves to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Market Risk Group 31 December 2020	**200bps parallel increase** £000	**200bps parallel decrease** £000
Sensitivity to profit and reserves	**(1,458)**	1,584
31 December 2019		
Sensitivity to profit and reserves	**(42)**	70

28.13 Capital

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance. The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which also includes monitoring of:

Lending and Business Decisions

The Society does not use an application scorecard and all cases are individually underwritten using credit reference data and a number of sources of evidence regarding the status of the borrower. A detailed Lending policy sets out the Society's lending criteria for different types of lending supported by ongoing monitoring within the business to ensure the loans are affordable and all lending is responsible. The Credit Risk Committee meets regularly to monitor and control the risks associated with the mortgage lending portfolio and to ensure activity remains within policy and approved limits.

Concentration risk

The Society is exposed to concentration risk principally because its activities are highly concentrated in residential lending and/or associated products and services funded predominantly by retail deposits. Concentration risk is concerned with the risk that in extreme scenarios, the lack of diversification may mean the losses resulting from such concentrations may be sufficient to impact the solvency of the Group. The following types of concentration risk are monitored to ensure that lending is not more than is appropriate for the Group in relation to its position/size; Geographic, Funding, Large Exposures and Product Type.

Counterparty risk

The Society is exposed to the risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in losses. Counterparty risk principally arises from the Society investing in liquid assets as part of its Treasury operations. The Society controls the risk arising from liquid assets via a Board approved policy which restricts investments principally to cash held with the Bank of England, UK Government issued debt instruments and liquid regulatory compliant AAA rated debt securities. The Society's liquid asset investments are monitored by the Society's Assets and Liabilities Committee (ALCO) to ensure activity remains within policy and approved limits.

Pricing risk

Product pricing models are utilised for both new mortgage product launches and to assess ongoing pricing changes to the existing product portfolio in order to manage acceptable levels of net interest income margin and returns to support planned profitability and capital levels. All pricing decisions are reviewed and approved through the Product Pricing Committee.

29 | Society Pensions

The Society previously operated a Defined Benefit Pension Scheme, now closed to new entrants and further accrual, on which it recognises gains and losses in each period in the Statement of Comprehensive Income. The Defined Benefit Pension Accounting policy is set out in Note 1.19.

The Society's cash contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Pension contributions in 2020 were £0.97m which were based on the 2018 triennial valuation. The Society concluded work with the Trustees during 2020 on the latest triennial valuation review and has increased annual pension cash contributions to £1.30m from 2021 to support the reduction of the pension deficit over the planning period.

The Society's Defined Benefit Pension Scheme was closed to new entrants in September 2000 and to further accrual in December 2016. Eligible employees can join a Group Personal Pension Scheme under which the Society assists with contributions. In 2020, the Society contributed £339k to this scheme (£332k: 2019).

The Society has implemented Section 28 of FRS 102 'Employee Benefits' which covers the accounting and disclosure requirements for employee pensions. In accordance with Section 28 of FRS 102 the defined benefit pension liability has been shown gross of related deferred tax in the balance sheet. The FRS 102 scheme deficit at 31 December 2020 is £5.684m (£3.575m: 2019) before related deferred tax of £1,080m (£0.608m: 2019) and is shown in the Statement of Financial Position.

The fair value of the Defined Benefit Pension Scheme assets was 29.679m at 31 December 2020. The Scheme's assets include no assets from the Society's own financial instruments and do not include any property occupied by, or other assets used by the Society.

The key assumptions used in this valuation are:

Discount rate 1.3%
Inflation assumption-CPI 2.50%

The expected return on the Pension Scheme assets has been calculated as the yield on AA rated corporate bonds of appropriate term.

The post retirement mortality assumptions are based on the mortality table known as S2PMA for males and S2PFA for females with reference to members' years of birth. Allowances have been made for improvements in mortality in the recent past and currently expected in the future.

The assumptions are equivalent to expecting a 62-year old to live for a number of years as follows:

- Current pensioner aged 62: 24.3 years male, 26.4 years female.
- Future retiree upon reaching 62: 25.7 years male, 28.0 years female.

29.1 Pension breakdown

Net pension (liability)	2020 £000
Defined benefit obligation	**(35,363)**
Plan assets	**29,679**
Deficit in the Scheme	**(5,684)**
Movement in deficit during the year	
Deficit in the Scheme at beginning of year	**(3,575)**
Interest cost	**(65)**
Actuarial loss	**(3,014)**
Employer contributions paid (gross of charges)	**970**
Deficit in the Scheme at end of year	**(5,684)**

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are shown in the following tables:

Changes in the fair value of scheme assets:	2020 £000
Opening fair value of Scheme assets	**27,103**
Interest on assets	**569**
Gains on asset return	**1,975**
Contributions by employer (gross)	**970**
Benefits paid	**(938)**
Closing fair value of Scheme assets	**29,679**
Changes in the present value of the defined benefit obligation	
Opening defined benefit obligation	**30,678**
Interest cost	**634**
Losses on changes in assumptions/from experience	**4,989**
Benefits paid	**(938)**
Closing defined benefit obligation	**35,363**

The pension costs for the Defined Benefit Scheme in 2020 were as follows:

Analysis of other pension costs charged in arriving at operating profit:	2020 £000
Interest on Pension Scheme liabilities	(65)
Net charge to operating profit	**(65)**

Analysis of amount credited/(charged) through other comprehensive Income:	
Return on assets	1,975
Changes in assumptions	(4,989)
Net charge through Other Comprehensive Income	**(3,014)**

The fair value of the plan assets were as follows:

	2020 Fair Value £000	2019 Fair Value £000
Equities	13,687	12,885
Bonds	11,154	12,642
Other	4,837	1,576
Total	**29,678**	27,103

Principal actuarial assumptions (expressed as weighted averages) at the year end:

	2020	2019
Discount rate	1.3%	2.1%
Inflation - RPI	3.0%	3.0%
Inflation - CPI	2.5%	2.3%

The return on the scheme's invested assets over the year was 7.3%, equivalent to £1,975m in monetary terms.

The total actuarial loss recognised in Other Comprehensive Income in 2020 was £3.014m (£0.179m loss: 2019).

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension ('GMP') benefit within the Lloyds pension scheme, the Society included an allowance for the impact of GMP equalisation within its 2018 accounting figures, where an uplift of 0.3% was applied to the FRS102 liabilities. The liabilities as at 31 December 2020 are based on these figures and therefore allow for this adjustment. However, this remains an estimated figure with no further adjustment to this estimate to date. Once detailed calculations have been undertaken by the Scheme Trustee, the difference between this estimate and the actual cost of equalisation will be treated as an actuarial gain/loss in the OCI.

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The Society has estimated the impact of this ruling to be less than 0.1% of liabilities and has therefore excluded the impact from its 2020 accounting figures.

30 | Related Party Transactions

The Group has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same Group that are wholly owned.

The Group would disclose transactions with related parties which are not wholly owned with the same Group; however, during the year under consideration, there have been no such related party transaction which needs to be disclosed.

As at 31 December 2020 the Society had a loan outstanding to its subsidiary, Furness Mortgage Services Limited, of £1.292m (£1.826m: 2019).

The Society was owed £0.001m by its subsidiary Furness Financial Advisers Limited (£0.004m: 2019).

See Note 7 for disclosure of Directors' emoluments and details of transactions with Directors.

31 | Post Balance Sheet Events

At the date of signing these financial statements the UK remains under varying degrees of restriction imposed in response to the ongoing Covid-19 situation.

On 4th January 2021 the UK government imposed a further national lockdown. Ongoing restrictions increase the level of economic uncertainty, in particular, unemployment, house prices and interest rates.

The Society carries out stress and scenario analysis as part of its ongoing activities which incorporate factors such as interest rate reductions and macro-economic shifts. The Directors consider these events to be non-adjusting post balance sheet events. It is not possible to estimate the value of the potential impact(s) on the Society due to the high degree of uncertainty.

13

Annual Business Statement

For the year ended 31 December 2020.

01 | Statutory Percentages

Statutory Percentages	At 31.12.2020	At 31.12.2019	Statutory limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	0.82%	0.94%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the 'funding limit')	16.21%	17.65%	50%

The above percentages have been prepared from the Group's Annual Accounts.

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986.

Business assets are the total assets of the Group as shown in the Statement of Financial Position plus impairment allowance on loans and advances to customers, less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus impairment allowance on loans and advances to customers.

02 | Other Percentages

Summary of Key Financial Ratios	2020 (%)	2019 (%)
Gross capital as a percentage of shares and borrowings	**7.50**	8.31
Free capital as a percentage of shares and borrowings	**7.34**	8.16
Liquid assets as a percentage of shares and borrowings	**18.24**	12.60
Profit for the year as a percentage of mean total assets	**0.18**	0.24
Management expenses as a percentage of mean total assets	**1.18**	1.23

The above percentages have been prepared from the Group's Annual Accounts.

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

'Gross capital' represents aggregated reserves and subordinated liabilities as shown in the Group Statement of Financial Position.

'Free capital' is gross capital plus collective impairment on loans and advances less tangible and intangible fixed assets in the Group Statement of Financial Position.

'Mean total assets' represent the average of total assets at the beginning and end of the financial year for the Group.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and treasury bills.

'Management expenses' are the aggregate of administrative expenses and depreciation and amortisation taken from the Group Statement of Comprehensive Income.

03 | Directors as at 31 December 2020

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mr G M Berville	64	31/10/2018	Company Director	Chair with Profits Committee LV Chair Key Care Ltd Chair Yorkshire Cancer Research Woods Bacon Factory - Director
Ms K L Rebecchi	54	05/01/2016	Company Director	Business Enterprise Fund Ltd Redmayne-Bentley Stockbrokers LLP Cynergy Bank Ltd
Mr N J Gower	61	20/05/2014	Company Director	Manchester University NHS Foundation Trust
Mr P A McLelland	54	26/10/2016	Company Director	Calisen Group (Holdings 2) Limited & Subsidiaries Full details available on request
Mr A P Haywood	57	25/04/2018	Company Director Chief Information Officer	Gustec Advisory Ltd Yorkshire Water
Mr P D Rogerson	56	29/10/2019	Company Director	Trustee of the Newcastle West End Food Bank charity
Mr C M Harrison	59	06/04/2017	Chief Executive	Furness Mortgage Services Limited Furness Financial Advisors Limited
Mr C O'Donnell	48	01/07/2019	Finance Director	Furness Mortgage Services Limited Furness Financial Advisors Limited
Mrs S J Heron	57	25/06/2015	Marketing & Sales Director	Furness Mortgage Services Limited Furness Financial Advisors Limited

Documents may be served on the above named Directors at the following address: Furness Building Society, 51-55 Duke Street, Barrow-in-Furness, Cumbria LA14 1RT

04 | Other officers

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mrs P A Mawson	50	05/07/2015	Chief Compliance Officer & Group Secretary	Furness Mortgage Services Limited
Mr K L Bevan	51	09/04/2018	Chief Risk Officer	Herdwik Consulting Ltd South Lakes Housing Accociation

05 | Particulars of Directors' Service Contracts

Details of Directors' service contracts can be found in the Directors' Remuneration Report on pages 60 to 65.

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HEAD OFFICE

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Dalton-in-Furness
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Telephone: 01229 466685.

Grange-over-Sands
9 Lowther Gardens,
LA11 7EX.
Telephone: 015395 33745.

Lancaster
2 Lancaster Gate, LA1 1NB.
Telephone: 01524 66221.

Kendal
2-4 Stricklandgate, Kendal,
Cumbria, LA9 4ND.
Telephone: 01539 729020.

Millom
6 Market Square, LA18 4HZ.
Telephone: 01229 773671.

Poulton-le-Fylde
9 Queen's Square, FY6 7BW.
Telephone: 01253 892212.

Preston
8 Lune Street, PR1 2YX.
Telephone: 01772 253183.

Ulverston
20 New Market Street,
LA12 7LN.
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Furness Building Society Reg No. 221 B;
Registered Office: 51-55 Duke Street,
Barrow-in-Furness, Cumbria LA14 1RT

Authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority and entered in the Financial Services Register under number 159624.

Auditor: Mazars LLP, 1 St Peter's Square, Manchester, M2 3DE.
Bankers: National Westminster Bank plc & The Royal Bank of Scotland plc.

The Society is covered by the Financial Ombudsman Service and has a complaints handling procedure. A copy of the complaints handling procedure is available on request. Complaints we cannot settle may be referred to the Financial Ombudsman Service. Your call may be monitored or recorded to maintain a quality service. Reference: FBSAR&A010220.