Annual Report and Accounts

For the year ended 4 February 2019

Chorley Building Society

TRUSTED SINCE 1859

Our Vision

To be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values.

Our Values

- Security and Stability
- Trust
- Investment in our People and in our Systems
- Customer Service

Employee Values, Behaviours and Conduct

B	R	I	T	E
Be the Best we can be	Respect	Integrity	Teamwork	Every Member counts

Contents

Key Highlights of the Year

Total Assets increased by

2.2%

(2018: 5.7%)

Mortgage balances increased by

7.6%

(2018: 11.3%)

Net profit

£0.87m

(2018: £1.23m)

Savings balances increased by

2.5%

(2018: 4.7%)

Capital increased to

£19.5m

(2018: £18.6m)

Chairman's Statement

On 7th March 2019 we celebrated the 160th anniversary of the meeting of a group of mill owners and workers who formed The Chorley and District Building Society (the Society).

"Since its formation the Society has continued to grow and build on a solid foundation by meeting the needs of our Members, making a difference to their lives and to the communities where we live and work."

I reflected last year that our role is to help our Members' dreams come true. We realise this by giving saver Members a trusted and safe home for their money and a fair return, whilst lending these savings to mortgage Members, who pay a fair price for that money, and the Society subsequently invests in our local communities.

Since 1859, even though the world has changed beyond all recognition, the Society has remained true to its roots and to the mutual values of support, self-help and shared community with 72% of our saver Members and 58% of our home builder or home buyer Members living in the North West.

I reported last year that we had refreshed our vision, mission and brand image. During 2018/19 we have reframed our strategy to ensure that we continue to put you, our Members, at the heart of everything that we do. We are keen to maximise the value our Members get from the Society and to hear how we can better meet your needs. We have reshaped our strategy to capture what it means to be a Member of Chorley Building Society. The Society will ensure you are provided with a safe place for your money; you are provided with a personal service crafted to meet your needs; you are supporting the local community in which we operate and finally, you are rewarded for helping more people reach their aspirations of home ownership and realise their savings ambitions.

Much of the rest of this report explains the progress we have made over the past year and details our future plans. We appreciate that many of our Members now want to communicate with us using digital media and some would prefer to do business with us over the internet. We are aware that this demand is likely to grow in future. We know this is an area where we could do more, and this will be a key focus for us over the coming year whilst still maintaining our commitment to offering face-to-face service through our branch network.

During the year, Lesley Cairns stepped down as Deputy Chief Executive, Secretary and Treasurer. Lesley made an immensely valuable contribution to the Society's success during a challenging time for financial services. On behalf of all of the Board, I thank Lesley for her distinguished service and wish her a long and happy retirement.

Conclusion

The Chorley's Board of Directors are mindful that market conditions remain challenging in 2019 with competition and new entrants to the mortgage market squeezing operating margins. Nevertheless, your Society remains secure and strong and is focused on delivering benefits to you, our Members.

We are excited to celebrate our 160th anniversary with a renewed commitment to meeting the ever-changing needs of current and future Members.

John Sandford
Chairman

27 March 2019

Chief Executive's Review

As the Society celebrates the significant milestone of its 160th anniversary year, I am delighted to report yet another strong business performance with healthy levels of profitability and an increase in assets and reserves underpinned by high Member satisfaction levels.

Our continued success can be attributed to our focus on providing Member value via an attractive range of savings and mortgage products, combined with excellent service levels, delivered by highly trained staff who are passionate about the Society and proud of our traditional mutual values and commitment to supporting our local community.

Our post-tax profit exceeded £874k and despite intense competition in the mortgage market the Society's new mortgage lending of £46m was the second highest level on record, leading to an increase in mortgage balances. After nearly ten years of the lowest interest rates in history, I am delighted that we were also able to increase interest rates for our saver Members and broaden our range of savings products leading to an overall increase in savings balances. A summary of the key financial performance indicators is detailed in the Strategic Report on page 6.

During the year we made significant investment in our team as well as our systems and technology to support our future growth ambitions and to enhance our Member experience. This investment will continue next year and we have exciting plans to deliver a wider range of products and services to further enhance the value we provide to our Members.

Despite the many challenges that lie ahead, not least the uncertainty surrounding the United Kingdom's decision to leave the European Union, I am confident that our mutual business model and focus on delivering real Member value will enable the Society to continue its success and deliver our mission statement, 'to make a difference to the lives of our Members and the local community'.

I would like to thank all of our Members for your support throughout the year and we look forward to continuing to deliver more Member value and to another successful year of sustainable growth.

Stephen Penlington
Chief Executive

27 March 2019

Strategic Report

Purpose and Strategy

The principal purpose of the Society is that of making loans that are secured primarily on residential property which are funded substantially by its Members.

The Society's vision is 'to be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values'. This is underpinned by our mission statement 'to make a difference to the lives of our Members and the local community'.

During the year, the Society reshaped its strategic framework which reinforces our overarching goal of offering a unique and individual proposition whereby as a Member you are:

Provided with a safe home for your money

The Society is committed to remaining safe by continuing to be financially strong and effectively governed in order to protect Members' money.

Supporting the local community in which we operate

The Society is committed to making a difference in the local community in which we operate by supporting and helping causes that matter to our Members.

Unique and provided with a personal service crafted to meet your needs

The Society is committed to delivering a personal service by embracing our Members' individual needs and wants whilst offering savers and mortgage products distributed through multi-channels.

Rewarded for helping more people reach their aspirations of home ownership and realise their savings ambitions

The Society is committed to encouraging our Member base to flourish by being a provider of choice, rewarding membership and meeting the needs of each unique Member at every stage of life.

Our values are at the heart of everything we do. They are what drive our everyday behaviour, shape our culture and guide our decision making. Living by our values allows us to demonstrate what is special and different about the Society to those with whom we interact and engage. Our values ensure that every Member receives a level of service of which we can be proud.

The Society Values are:

Be the **Best** we can be;
Be **Respectful**;
Act with **Integrity**;
Work as a **Team**; and
Ensure **Every Member** counts.

The Society is committed to living by our **BRITE** Values.

B R I T E

Business Review

This has been an excellent year for the Society with another good set of results. The main Key Performance Indicators which are used by the Board to monitor the performance of the Society are detailed below:

Remaining safe	2019	2018
Total assets	£238.1m	£233.1m
Total asset growth	2.2%	5.7%
Profit after taxation	£0.87m	£1.23m
Net interest margin	1.9%	2.2%
Management expenses as a percentage of mean total assets	1.5%	1.5%
Gross mortgage lending	£46.6m	£48.4m
Net mortgage balances	£191.8m	£178.3m
Mortgage asset growth	7.6%	11.3%
Shares and deposit balances	£215.0m	£210.3m
Capital	£19.5m	£18.6m
Gross capital as a percentage of shares and borrowings	8.9%	8.7%
Free capital as a percentage of shares and borrowings	8.1%	7.9%
Tier 1 capital ratio	22.8%	22.1%
Liquid assets as a percentage of shares and borrowings	20.2%	24.5%

Delivering a personal service

The Society has recognised that the way in which our Members want to deal with us is changing and as a result, during the year we embarked on a programme of enhancements to our service offering. With an increasing demand for online and digital solutions, we were delighted to launch an online mortgage broker platform as well as an online execution-only mortgage solution to meet our Members' needs when they are looking to switch mortgage schemes.

These improvements are complementary to our branch network and not replacements as we place great value on providing a face-to-face service through our friendly and well-trained staff in our branches. Throughout the year ahead, we will be making further enhancements to our digital offerings as well as improving our branch facilities.

Making a difference in the local community in which we operate

The communities in which our branches operate form the heart of the Society. We have continued to support local charities and good causes, taking part in a whole host of community events and offering donations and sponsorships. Activities this year included the following:

- Employee donations on dress-down days;
- Valentine's Day, Easter, Halloween and Christmas raffles;
- Winter warmer lunches and pancake day sales;
- Each branch hosted a Macmillan coffee morning;
- At Christmas each branch became a donation point for 'Mission Christmas';
- Food Bank collections;
- Sponsored Age UK Lancashire's 'Older People's Day';
- Attended numerous careers fairs at local schools and colleges;
- Sponsored Chorley Football Club; and
- Sponsored Chorley Cricket Club.

Our employee-voted charity for the year was 'Chorley Help the Homeless Ltd' for which £2,557 was raised during the year. We also donated generous amounts of food and toiletries throughout the year. In addition, we gave £16,116 to 11 local charities and community organisations and paid £29,206 to our affinity savings account partners during the year. No donations were made for political purposes. Further details of our charity and community activity can be found on page 13.

During the year, we asked our Members to vote for their chosen charity for 2019/20 from a shortlist of charities voted for by our employees. Hundreds of votes were received, and we are delighted that we will be supporting 'Rosemere Cancer Foundation' as our nominated charity throughout the year ahead.

Encouraging our member base to flourish

Mortgage growth was achieved against a backdrop of intense competition. New challenger banks have entered the residential mortgage market and the Society has had to compete with lenders entering the specialist lending markets which have been the hallmark of the Society in recent years. Nevertheless, the Society has used a combination of attractive pricing, appropriate lending criteria and high quality service and underwriting to achieve this level of growth without any diminution in the quality of lending.

During the year we launched new mortgage products for buy-to-let landlords as well as products targeted for those with a smaller deposit.

Growth in savings balances during the year reflects the popularity of several of our accounts. On 2nd August 2018, the Bank of England announced an increase to the Bank Base Rate from 0.50% to 0.75%. In response, the Society increased all of our lowest paying easy access savings rates to ensure a minimum interest rate of 0.60%.

For our saver Members, we have added to our range of children's accounts and ISA accounts as well as continuing to offer our popular regular saver accounts with increased loyalty rates for existing Members.

Living by our BRITE values

The Society's service proposition is founded upon highly qualified and well-trained employees who are motivated to act in the best interests of our Members, equipped with the appropriate training, systems and tools to do the job properly. As the Society continues to grow, we have strengthened our resources to meet the needs of the business.

The Society remains committed to training and career development for all employees. It is particularly pleasing to report that two senior employees graduated from Loughborough University during the year both with an MSc degree in Leadership and Management. The Society is supporting a further three senior employees to achieve the same qualification.

As an equal opportunities' employer, the Society values the differences that a diverse workforce can bring and is committed to ensuring that its workplaces are free from discrimination because of race, nationality, ethnic or national origin, gender (including gender reassignment), sexual orientation, age, religious beliefs, marital status or disability.

Profitability

The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members. Profit enhances our financial strength and is necessary to meet the levels of capital, including protection buffers, required under the Capital Requirements Directive. Financial strength also protects the Society against its principal risks and uncertainties and safeguards Members' funds.

Income Statement	2019 £m	2018 £m
Net interest income	4.5	4.9
Administrative expenses	(3.4)	(3.4)
Loan impairment provisions	0.0	(0.1)
Other provision adjustments	0.0	0.1
Profit before tax	**1.1**	**1.5**

Profit before tax decreased by £0.4m to £1.1m during the year from £1.5m in the previous year due to lower levels of net interest income caused mainly by competitive pressure on interest rates. Nevertheless, the year end position was in excess of our planned objective and more than sufficient to maintain the financial strength of the Society. The Society anticipates that the market will remain competitive and that our business model will ensure that sufficient profitability will be generated in 2019/20 to meet our future-planned objectives.

Net interest margin

Net interest margin is a measure of the Society's net interest income and equates to the difference between interest received on assets and interest paid on liabilities, divided by the Society's average total assets during the year.

The Society's net interest margin remains healthy, although it decreased from 2.2% to 1.9% during the year as the Society continued to manage the margin by balancing the risks and rewards in relation to borrowing Members while offering value to saver Members.

Administrative expenses and depreciation

Administrative expenses and depreciation (together "management expenses") increased by £58,723 in the year reflecting the Society's investment in systems, people and processes to support expected growth in the business and to deliver Member value. Employee costs increased by 1.8% and other administrative costs increased by 3.1% during the year compared to the prior year. The increase was driven in part by investments made in the IT, Risk and Compliance functions as the Society recognises that this investment is essential in providing a safe and secure home for Members' funds. Further details can be found in note 5 on page 46.

The ratio of management expenses to mean total assets decreased in the year from 1.52% to 1.48% compared to the prior year.

Impairment charges

The impairment provision for loans and advances to customers was reduced by £22,923 (2018: increase £64,969). The Board carefully and closely manages potential credit risk which has resulted in lower provision levels.

Provisions for liabilities and charges

During the year, net income of £22,943 (2018: £79,268) was recognised in the Statement of Income and Movements in Members' Interests relating to a reduction in the provision for the Financial Services Compensation Scheme (FSCS) levy.

Taxation

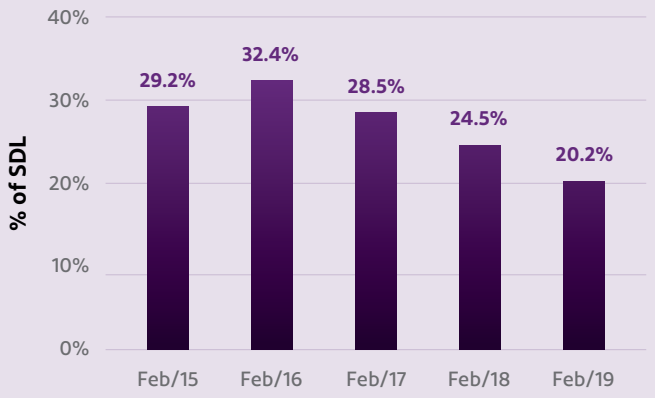
The Society discloses an effective corporation tax rate of 19.00% for the year (2018: 19.16%). For further information see note 9 on page 47.

Financial Position

Liquidity

Liquid assets as a percentage of shares, deposits and loans (SDL) decreased to **20.2%** **(2018: 24.5%)**

Liquid assets were **£43.9m** **(2018: £52.3m)** representing a decrease of **16%** **(2018: decrease of 9%)**



The Society has continued to maintain high quality liquid assets throughout the year. The Society's liquid assets are maintained principally in the form of cash and government debt, of an appropriate level and quality. Liquid assets are readily realisable as cash when required to ensure that the Society can meet its financial obligations as they fall due under normal and stressed scenarios. The Society has no exposure to any counterparty outside of the UK. Liquidity reduced during the year as planned and it was used to fund mortgage lending.

Liquid Assets	2019	2018
Total liquid asset balances	£43.9m	£52.3m

By Asset Class	£m	%	£m	%
Cash in hand and balances with the Bank of England	29.4	67	29.7	57
Central Government (UK Gilts and Treasury Bills)	0.5	1	0.0	-
Loans and advances to credit institutions	14.0	32	22.6	43
Total	**43.9**	**100**	**52.3**	**100**

The Liquidity Coverage Ratio (LCR) measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR is measured monthly and as at 31 January 2019 was 324% (31 January 2018: 359%).

The Net Stable Funding Ratio (NSFR) measures the stability of the Society's funding beyond 30 days. The NSFR is measured quarterly and as at 31 December 2018 was 174% (31 December 2017: 178%).

Both the LCR and the NSFR were comfortably in excess of the minimum regulatory limit set by the regulators of 100%.

Mortgages (Loans and Advances to Customers)

Mortgage balances were

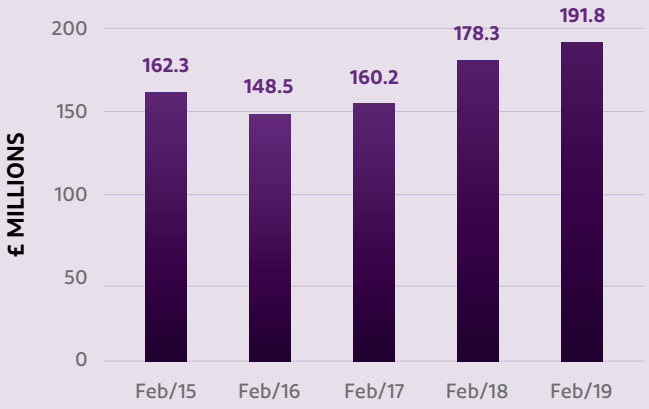
£191.8m

(2018: £178.3m)

representing growth of

7.6%

(2018: growth of 11.3%)



A summary of the Society's mortgage portfolios are shown in the table below.

Mortgage Portfolios	2019		2018	
	£m	Avg. LTV	£m	Avg. LTV
Prime Residential	175.7	58.0%	160.2	58.1%
Buy-to-Let	15.8	69.6%	17.5	69.8%
Commercial	0.7	48.5%	1.0	52.1%
Provisions	(0.4)		(0.4)	
Total	**191.8**		**178.3**	

The Society's mortgage book comprises over 99% residential loans; included in this are self-build mortgages (10%) and buy-to-let mortgages (8%). The Society has historical commercial mortgages amounting to less than 1%, however the Society is continuing to decrease its exposure in this area. Our mortgage assets remain of high quality with a weighted average loan-to-value (LTV) of 59% (2018: 59%). Lending over 80% LTV at inception is insured through a mortgage indemnity policy which protects the Society from any losses incurred if the property is taken into possession.

All loans are individually underwritten by experienced qualified underwriters based in the Society's Head Office. Every mortgage application is personally considered on a case-by-case basis when assessing affordability rather than utilising computerised underwriting tools. Responsible lending and reviewing each case on an individual basis is fundamental to the high quality of our loan book.

The Society's mortgages are all secured with a first charge registered against the collateral property. All loans are shown at an indexed LTV using the quarterly regional Nationwide House Price Indices. Further information on security LTV is provided in note 26 on page 52.

Mortgage Credit Quality

Arrears

The Society's arrears statistics as at 4 February 2019 remain low both compared to the building society sector and the mortgage industry as a whole. There were 4 cases in serious arrears of 12 months or greater at the year end (2018: 4 cases). The total amount of arrears outstanding on these accounts was £37,838 (2018: £49,987) and the aggregated capital balance was £334,916 (2018: £396,024). In all cases, the Society has assessed whether the mortgage assets affected are supported by adequate underlying equity with specific provisions raised where necessary. The Society maintains an appropriate policy for provisioning. Once again, the Society is pleased to report that there were no properties in possession at the year end.

Forbearance

The Society will work closely with any borrower experiencing difficulties, offering help and advice on the situation where appropriate. Forbearance measures may include action such as temporary interest-only concessions, extensions of term and/or reduced payment concessions. Forbearance towards borrowers was applied to 41 accounts at the year end (2018: 39).

Savings (Share Balances)

Savings balances were

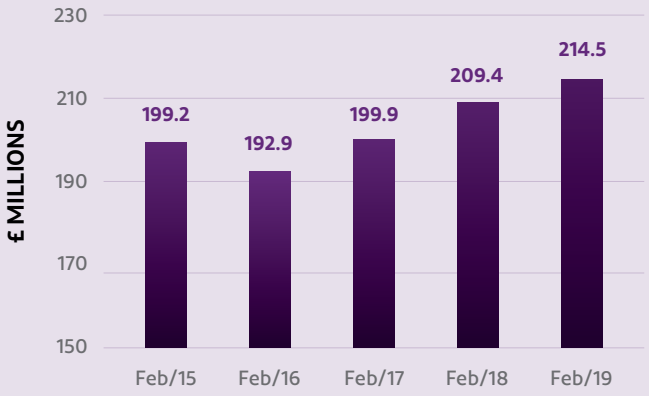
£214.5m

(2018: £209.4m)

representing growth of

2.5%

(2018: growth of 4.7%)



The Society aims to generate a level of savings balances that meets its mortgage funding and liquidity requirements. The strengthening of our savers base during the year was achieved at a time when interest rates remain historically low, demonstrating our attractive pricing in the market for new and existing Members alike and the quality of our service proposition.

Our philosophy remains to operate fairly with simple product design, attractive terms and conditions and to deliver long-term Member value. We continue to benchmark our interest rates, monitor trends, and most importantly, ensure our Members remain at the heart of any decisions that we make.

Funding

The Society manages its funding levels carefully to ensure it achieves an appropriate level, mix and duration of funding which is essential in providing the Society with the financial resources it needs to meet its growth aspirations. As a mutual building society, the Society's business model is to obtain most of its funding through retail savers funds from its Members, with the balance of funds to support liquidity levels obtained from the wholesale markets. Wholesale borrowings decreased during the year by £0.5m to £3.0m compared to the previous year of £3.5m. This level is comfortably within the limits established by the Board.

Capital

The Board seeks to maintain a satisfactory level of capital to ensure that the Society is protected against any adverse changes in economic conditions and to cover the level and nature of the risks to which it is or might be exposed.

Capital reserves were

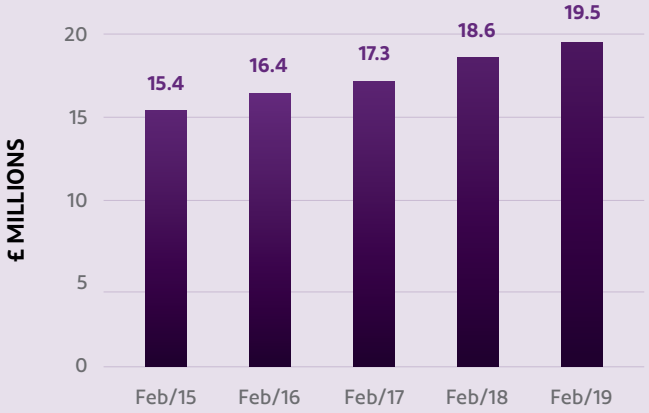
£19.5m

(2018: £18.6m)

representing growth of

4.7%

(2018: growth of 7.1%)



The table below shows the composition of the Society's capital and the capital ratios at the end of the year.

Capital	2019 £m	2018 £m
General Reserve	19.5	18.6
Intangible Assets	(0.2)	(0.2)
Tier 1 Capital	**19.3**	**18.4**
Collective Provision for Impairment Losses	0.2	0.1
Tier 2 Capital	**0.2**	**0.1**
Total Capital	**19.5**	**18.5**
Total Risk-Weighted Assets	**84.3**	**83.0**
CAPITAL RATIOS	**%**	**%**
Common Equity Tier 1 Ratio	22.8	22.1
Leverage Ratio	8.0	7.7
Pillar 1 Ratio	8.0	8.0
Pillar 2A Ratio	1.7	1.7

The leverage ratio is a measure of capital strength assessing qualifying Tier 1 capital against on-and-off-balance sheet assets. The leverage ratio as at the year end was 8.0% (2018: 7.7%) and although the 3.25% minimum regulatory limit, prescribed to firms with retail deposits in excess of £50 billion does not apply to the Society, it is in excess of this limit.

The Society is required to set out its capital position, risk exposures and risk assessment process in its Pillar 3 disclosure document. This is available on the Society's website www.chorleybs.co.uk or may be obtained by writing to the Secretary at the Society's Head Office.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Society are set out in the Audit, Risk & Compliance Committee Report on page 27.

The Future Outlook

Our business model remains viable and the future outlook is encouraging. The risks to our business are understood, well-controlled and our assets are of high quality, with low levels of arrears and substantial equity. We have more than sufficient levels of capital and liquidity to meet our objectives and our underlying profitability performance is strong.

Global macroeconomic and political factors may continue to impact the UK economy following the prolonged period of uncertainty subsequent to the Brexit vote. As a UK organisation, the Society has no direct exposure to the EU however, the wider economic implications may have an impact. The Society has carried out stress tests to assess the impact of possible wider economic implications, for example, falling house prices and rising unemployment levels. The Society maintains adequate levels of liquidity and capital and is able to withstand the stresses it has undertaken. Our Board remains vigilant and continues to watch for any adverse signs as the UK navigates its way through the Brexit negotiations.

The Society has recognised that the way in which current and future Members want to deal with us is changing. During the year, we embarked on a programme of enhancements to our IT systems to provide an online savings service and online mortgage broker platform. These improvements will continue and are complementary to our existing branch network. The Board is fully committed to the Society's branch network and to promoting fair and transparent savings products which offer good value in the short, medium and long-term.

The Board remains committed to making a difference to the local community in which we operate and the scale of activity detailed on page 13 will be heightened further in the future as we strengthen our engagement activity with Members and the local community.

Whilst there may be challenges on the horizon, the Society is well placed to continue its successful business performance and to deliver our vision, 'to be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values' and mission statement 'to make a difference to the lives of our Members and the local community'.

On behalf of the Board

Angela Kos
Finance Director

27 March 2019

Charity and Community Support

Since 1859 the Society's Members and the local community, have remained at the heart of everything we do and each year we aim to make a real difference in the local community by supporting deserving causes.

In 2018/19, 'Chorley Help the Homeless Ltd' was our chosen charity and we donated towards this extremely deserving cause throughout the year. We also sponsored and raised funds for other charities and sporting clubs in the local area.

We would like to take this opportunity to thank every one of our Members for their continued support. Together we have helped make a real difference in our local community.

The Society is a socially-aware business and our community involvement and activity has focused on areas which are aligned with our core values. The contributions which we have made to local deserving causes have helped them to continue their great work and support those who rely on their services.

During the year, we donated over £16,000 to local charitable organisations, over £2,500 for our chosen charity and gave over £29,000 to our affinity savings account partners. Here are some examples of the local charities and organisations we have supported.

Members of our Charity Committee pictured: Lottie Clayton, Local Business Development Manager and Kim Roby, Customer Services Director with the donations.

Chorley Help the Homeless – our chosen Charity of the Year

'Chorley Help the Homeless Ltd' strive to combat homelessness and the causes of homelessness in the Borough of Chorley and its surrounding areas.

With a team of professionals and specialist volunteers, they provide support to families and individuals who have nowhere safe to live or who are about to lose their home.

Throughout the year, we have supported our chosen charity with monetary, food and household item donations. Our employees and Members have donated huge amounts of tinned/storable foods, toiletries, bedding and sleeping bags, pots, pans, and cutlery.

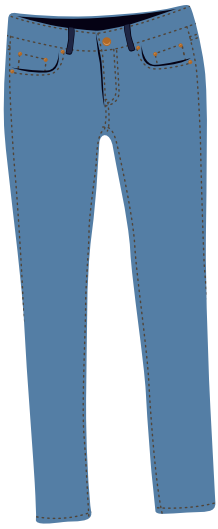
In addition, we have raised over £2,500 over the course of the year. A huge thank you to all our employees and Members who have supported this amazing cause!

Our Charity Work

Supporting Mission Christmas

Once again, the Society took part in Rock FM's 'Mission Christmas'. We were proud to support this wonderful charity by collecting and donating toys and games to make sure that no child in the local area woke up on Christmas Day without a present.

Members of our Charity Committee: Angela Platt, Business Support Analyst, Kim Roby, Customer Services Director and Lottie Clayton, Local Business Development Manager pictured with the donations.



Jeans for Genes Day

Friday 21st September 2018 was 'Jeans for Genes Day' and our employees supported this cause by wearing their jeans to work and giving a donation!

Members of our Charity Committee pictured: Rachael Reid, Head of Retail, Angela Platt, Business Support Analyst, Kim Roby, Customer Services Director and Lottie Clayton, Local Business Development Manager.

Macmillan Cancer Support Bake-Off

In September 2018, we took part in Macmillan's biggest fundraising event for people facing cancer. We hosted a coffee morning in our branches for our Members and employees to generate donations.

We held our very own "bake-off" competition and our employees made some fabulous tasty treats including cherry cheesecake brownies, cupcakes and vegan lemon drizzle cake – to name just a few!

Stephen Penlington, Chief Executive pictured.

Affinity Accounts

The Society was delighted to give **£29,206** across our seven affinity account partners. Our affinity accounts are an example of how our Members contribute so generously to local charities and organisations.

Chorley Football Club

Josh Vosper, Commercial Manager and Ken Wright, Chairman from Chorley Football Club pictured with members of our Charity Committee: Angela Platt, Business Support Analyst and Julie Smith, Customer Advisor.

Derian House

Susie Poppitt, Fundraising Consultant for Derian House is pictured with members of our Charity Committee: Angela Platt, Business Support Analyst, Lottie Clayton, Local Business Development Manager and Kim Roby, Customer Services Director.

St Catherine's Hospice

Sue Clemson, Director of Finance & Business from St Catherine's Hospice pictured with members of our Charity Committee: Gemma Kinsman, Mortgage Advisor & Underwriter, Julie Goodwin, Head of Business Development, Lottie Clayton, Local Business Development Manager and Angela Platt, Business Support Analyst.

Age UK Lancashire

David Ward, Promotions and Fundraising Manager from Age UK Lancashire pictured with Angela Platt, Business Support Analyst.

Community Events

Age UK Lancashire - Older People's Day

In October 2018, our affinity partner Age UK Lancashire held their annual 'Older People's Day' to celebrate National Older People's Day. With people living and working longer, it is increasingly important to recognise the importance of supporting older people within our community. Older People's Day is an opportunity to acknowledge the older generation and the contribution which they make.

The Celebration Event was held at the charity's Lifestyle Centre on Gillibrand Street in Chorley. David Ward from Age UK Lancashire said: "We wanted to do something special for the people of Chorley so decided to put on a party. The team of staff and volunteers at the centre were brilliant and the centre was buzzing with activity. We put on a 3-course lunch which went down really well and had some live singers to entertain everyone".

The event was sponsored by the Society and we went along on the day to lend a hand. Kim Roby, Customer Services Director at Chorley Building Society said: "We were delighted to be able to support such an amazing cause within our local community. The work which Age UK Lancashire does is invaluable to older people and it was our pleasure to be able to participate in such a great event."

Careers Fairs in the Local Schools

Over the course of the year, we visited local schools to talk to pupils about the Society and the importance of financial security and having a sound financial education.

We also attended events at numerous secondary schools meeting Year 9, 10 and 11 students, their teachers and parents and speaking to them about their future career aspirations.

Sponsorship of Local Sporting Clubs

The Society is invested in the belief that sport benefits the local community and the health and well-being of those involved. We are proud to support local grassroots clubs and during the year we sponsored both Chorley Football Club and Chorley Cricket Club.

Chorley Football Club

The Society was delighted to be the main sponsor of the main stand at Victory Park and to be the official match sponsor of the Chorley FC v's Boston United FC on 1st December 2018. Here is our Chief Executive, Stephen Penlington, with Man of the Match Elliot Newby and Adam Laycock from Lostock Skip Hire.

Recognition in the Industry

Lancashire Red Rose Awards – Finalists

The Lancashire Red Rose Awards showcase the very best of Lancashire business and so we were delighted to be shortlisted as finalists at these prestigious awards in two categories for the Corporate Social Responsibility Award and the Financial Business Award.

Mortgage Finance Gazette Awards – Highly Commended

In October 2018, the Society was recognised as 'Highly Commended' in the Customer Service category at the Mortgage Finance Gazette Awards. The awards ceremony strives to recognise the achievements of organisations and individuals in the financial services sector on a yearly basis and the Society is proud to have been given this commendation.

Pictured: Rachael Reid, Head of Retail, Julie Goodwin, Head of Business Development, Angela Kos, Finance Director, Kim Roby, Customer Services Director, Lottie Clayton, Local Business Development Manager and Angela Platt, Business Support Analyst at the Lancashire Red Rose Awards

Thank you!

In May 2018, Lesley Cairns, Deputy Chief Executive, Secretary and Treasurer retired after nine years with the Society. Lesley is pictured with her retirement cake.

Our Directors

John Sandford
BA, MA, FCA
Chairman

John joined the Board in June 2014. He previously worked for KPMG for 33 years, the last 20 as an Audit Partner/Director, leaving KPMG at the end of 2010. At KPMG John headed up KPMG's Co-operative Centre of Excellence and is totally committed to a strong mutual sector in which he believes the Chorley has an important part to play. John has been Chairman of the Society since September 2016 having previously been Chairman of the Audit Risk & Compliance Committee. John is married to Judith and has two adult children. His interests include trying to reduce his golf handicap and he is a qualified cricket coach.

Stephen Penlington
BSc, MBA
Chief Executive

Stephen joined the Society in 2006 as Chief Executive. He has a wealth of experience in financial services and has been in the building society movement ever since graduating from the University College of Wales in 1980 with a BSc Economics Honours degree. Steve is Chair of the Assets & Liabilities Committee and Risk & Compliance Committee and a member of the Product Committee. A committed family man, he is an avid reader, loves music, keep-fit and is a rugby enthusiast. Stephen lives in Chorley and is a trustee of the Chorley Pals and Chorley Remembers Charities, a Non-Executive Director at Magenta Living and a Non-Executive Director at Mutual Vision.

Andrew Horsley
Chartered MCSI, FCIS
Vice Chairman & Chair of Nominations & Remuneration Committee

Andrew joined the Board in December 2011. He is a Fellow of the Institute of Chartered Secretaries with over 30 years' experience, most of it in the financial services sector. He is Company Secretary and Head of Compliance for a mutual insurer. Andrew is originally from Derbyshire. He is a Chartered Member of the Institute for Securities & Investment and a Member of the Association of Financial Mutuals Legislation Committee. Andrew is a member of the Audit Risk & Compliance Committee.

Erfana Mahmood
LLB (Hons)
Senior Independent Director

Erfana joined the Board in October 2011. Erfana is a qualified senior solicitor who has worked in the property lending sector for over 15 years and also has public sector housing experience. Erfana is a member of the Nominations & Remuneration Committee and is the Society's Whistleblowing Champion. In her spare time, Erfana enjoys travelling and walking.

Kevin Bernbaum
BSc, MBA
Chair of Audit, Risk & Compliance Committee

Kevin joined the Board in June 2014. Kevin holds a degree in Accounting and Financial Analysis and an MBA (Finance). He has nearly 35 years' experience working within the banking and building society sector specialising in treasury, risk and balance sheet management. Kevin was brought up in Leicester and now lives in London. He has three children who have nearly flown the nest.

Angela Kos
FCCA, MSc, FCMI
Finance Director

Angela joined the Society in 1999 and was appointed to the Board in April 2013 as Finance Director. She is a Fellow of the Association of Chartered Certified Accountants and graduated from Loughborough University in 2018 with an MSc degree in Leadership and Management. Angela has since become a Fellow of the Chartered Management Institute. Angela has over 19 years' experience working in financial management at the Society and is responsible for the Society's Secretarial, HR, Training, Facilities and Health & Safety functions. Angela is Chair of the Product Committee and a member of the Assets & Liabilities Committee, Risk & Compliance Committee, Mortgage Credit Risk Committee as well as being the Society's Whistleblowing Officer. Angela was born in Chorley and lives in Adlington with her husband and three young children. Angela is a Parent Governor at Balshaw Lane Community Primary School.

David Bagley
FCA
Non-Executive Director

David joined the Board in July 2016. He is a graduate of Lancaster University and a Fellow of the Institute of Chartered Accountants in England & Wales. David has spent his career in professional services and finance, specialising in corporate finance, commercial and investment banking and private equity. David is married with two daughters and lives in Sheffield. He and his wife are active supporters and puppy walkers for The Guide Dogs for the Blind Association where David is a trustee and board member. David is a member of the Audit Risk & Compliance Committee.

Kimberley Roby
BA (Hons)
Customer Services Director

Kim joined the Society in 2006 and was appointed to the Board in September 2017 as Customer Services Director. She has responsibility for the Society's Marketing, Mortgage, Savings, Business Development and IT operations. Kim is Chair of the Mortgage Credit Risk Committee, a member of the Product Committee, Risk & Compliance Committee and Charity Committee. As a member of the Society's Charity Committee, Kim plays a key part in organising numerous charity events during the year, ensuring we support the local community as much as possible. She is passionate about mutuality and putting our Members at the heart of everything we do. Kim has a degree in Business Studies and is currently studying for a master's degree in Leadership and Management at Loughborough University. She has recently moved to Coppull Moor with her husband and three young children.

Directors' Report

The Directors have pleasure in presenting the Society's 160th Annual Report and Accounts and Annual Business Statement for the year ended 4 February 2019.

Business Review

The Board remains unanimous in its belief that the mutual form is the most appropriate and beneficial to the interests of all existing and future Members. The Directors are pleased that the Society is reporting another successful year. A review of the Society's business performance has been incorporated into the Strategic Report on page 6.

Capital Ratios

The Society's capital ratios are detailed in the Strategic Report on page 6.

Financial Risk Management Objectives and Policies

The Society operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined Risk Management Framework that contains the following features:

- A risk-focused governance structure;
- Risk policy statements and risk limits;
- Risk identification, monitoring and reporting processes; and
- An effective internal control framework.

A detailed assessment of the Society's Risk Management Framework is set out in the Audit, Risk & Compliance Committee Report on page 27.

The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in note 26 to the accounts.

Principal Risks and Uncertainties

A detailed assessment of the Society's principal risks and uncertainties is set out in the Audit, Risk & Compliance Committee Report on page 27.

Directors

The following persons served as Directors of the Society during the year:

Non-Executive Directors	
John Sandford	Chairman
Andrew Horsley	Vice Chairman
David Bagley	Non-Executive Director
Kevin Bernbaum	Non-Executive Director
Erfana Mahmood	Senior Independent Director

Executive Directors	
Stephen Penlington	Chief Executive
Lesley Cairns	Deputy Chief Executive, Secretary and Treasurer (to 22 May 2018)
Angela Kos	Finance Director
Kimberley Roby	Customer Services Director

In accordance with the Memorandum and Rules of the Society, Angela Kos will retire at the Annual General Meeting on 21 May 2019 and being eligible will seek re-election to the Board.

Directors and Officers insurance has been put in place by the Society.

Supplier Payment Policy

The Society's policy is to ensure invoices are paid within the agreed payment terms, provided the supplier performs according to the terms and conditions of the contract. The number of creditor days as at 4 February 2019 was 10 (2018:12).

Charitable and Political Donations

During the year we made charitable donations of £18,673 (2018: £26,553) to 12 (2018: 25) local charities and community organisations. Furthermore, the Society paid £29,206 (2018: £30,721) to our affinity savings account partners during the year.

No donations were made for political purposes.

Further details on the Society's charitable giving during the year can be found in the Charity and Community Support information on page 13.

Events since the Year End

The Board does not consider that there have been any events since the year end of 4 February 2019 that have had a material effect on the financial position of the Society.

Going Concern

The current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

The Directors consider that:

- The Society maintains an appropriate level of liquidity that is sufficient to meet the normal demands of the business and the requirements which might arise in stressed circumstances;
- The availability and quality of liquid assets is such that funds are available to repay exceptional demand from retail saver Members;
- Other assets are primarily in the form of mortgages secured on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provisions are made where appropriate; and
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the accounts are prepared on a going concern basis.

Provision of Information to the Auditor

Each person who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Society's Auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

Independent Auditor

The Society regularly assesses the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external Auditor. This is done on an annual basis, immediately after the completion of the year end audit, and this is reported to and discussed at the Audit, Risk & Compliance Committee meeting.

KPMG LLP has expressed its willingness to continue in office as Auditor and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of KPMG LLP as Auditor will be proposed at the Annual General Meeting on 21 May 2019.

On behalf of the Board

John Sandford
Chairman

27 March 2019

Statement of Directors' Responsibilities

Directors' responsibilities for preparing the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The following statement, which should be read in conjunction with the statement of Auditor's responsibilities on page 34 is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.

The Directors are responsible for preparing the Annual Report and Accounts, Annual Business Statement and Directors' Report in accordance with applicable laws and regulations. The Building Societies Act 1986 ("the Act") requires the Directors to prepare Society Annual Accounts for each financial year. Under that law they are required to prepare the Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing the Society Annual Accounts, the Directors are required to:

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

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

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

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

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

On behalf of the Board

John Sandford
Chairman

27 March 2019

Corporate Governance Report

The Directors are committed to best practice in Corporate Governance. The Society's approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC) which directly applies to publicly listed companies. The Code does not directly apply to mutual organisations however, the Society has regard to its principles to the extent deemed reasonable and proportionate by the Board when establishing and reviewing corporate governance arrangements.

The underlying principles of good governance are leadership, effectiveness, accountability, remuneration and relationships with Members, in the context of ensuring the sustainable success of the Society over the long-term.

This report outlines the approach adopted by the Society and how the Board considers it has demonstrated application of the principles of the Code.

The Role of the Board

The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Society. The Board considers a strong system of governance essential to ensure the Society runs smoothly, aid effective decision making and support the achievement of the Society's strategy with the objective of safeguarding Members' interests.

As at 4 February 2019, the Board comprised three Executive and five Non-Executive Directors who provided the appropriate mix of skills and professional expertise required. The Board meets in at least ten months of the year with an additional day focused on strategy and leadership.

The principal functions of the Board are:

- To provide leadership and direction within a framework of prudent and effective controls;
- To determine the Society's strategy;
- To review business performance; and
- To ensure that the necessary financial and business systems, procedures, controls and human resources are in place for the management of risk and to safeguard the interests of Members.

The Society appoints one of its Non-Executive Directors to the role of Senior Independent Director (SID).

The main role of the SID is to:

- Act as the main point of contact for Members if they have concerns which the normal channels of communication with the Chairman, Chief Executive or other Executive Directors have failed to resolve or for which such contact is inappropriate;
- Act as a sounding board for the Chairman and Chief Executive on Board and Member matters;
- Conduct the Chairman's annual performance appraisal, taking account of the views of the Non-Executive and Executive Directors;
- Be the focal point for Board members for any concerns regarding the Chairman, or the relationship between the Chairman and the Chief Executive.

Terms of Reference have been created for the SID which are reviewed on an annual basis by the Nominations & Remuneration Committee and approved by the Board.

The Board has a formal schedule of matters which are reserved to it and has delegated authority in other matters to a number of Board and Management Sub-Committees.

Board responsibilities are detailed in the Board and Board Sub-Committee Terms of Reference, which have been summarised below. Full details of the Terms of Reference can be found on the website at www.chorleybs.co.uk.

Board Sub-Committees

Audit, Risk & Compliance Committee

This Committee comprises entirely Non-Executive Directors and meets at least five times a year to consider all aspects of audit, risk and compliance. It is responsible for oversight of financial reporting, internal controls, internal audit, external audit and risk management. It reviews the fairness of disclosures and recommends acceptance of the Annual Report and Accounts to the Board. It monitors the performance,

independence, objectivity, competence and effectiveness of the internal and external Auditors and is responsible for recommending appointment, re-appointment or removal of the internal and external Auditors. The Committee reviews the Risk Management Framework and supporting policies.

As at the year end, the following Non-Executive Directors were members of this Committee:

- Kevin Bernbaum - Chairman
- David Bagley
- Andrew Horsley

The Chief Executive, Finance Director and Customer Services Director attend representing the Executive, together with the Head of Risk and Head of Compliance. Representatives of the Society's internal Auditors and external Auditors attend each meeting of the Committee by invitation. At least once a year, the Committee meets with the Society's external and internal Auditors without any employee present. The Head of Risk and Head of Compliance have a reporting line directly to the Chair of the Committee.

The Board is satisfied that the composition of the Committee provides recent and relevant experience.

Nominations & Remuneration Committee

This Committee comprises entirely Non-Executive Directors and meets as frequently as is required to fulfil its duties and considers matters relating to Board and management succession and remuneration. It leads the process for Board appointments and makes recommendations to the Board. It considers the balance and diversity of skills, knowledge and experience of the Board, Executive and Senior Management team, the requirements of the business and recommends change where appropriate. It is responsible for approving the Remuneration Policy. The Board is satisfied that the composition of the Committee provides recent and relevant experience.

As at the year end, the following Non-Executive Directors were members of this Committee:

- Andrew Horsley - Chairman
- Erfana Mahmood

The Chief Executive and Head of HR, Training & Facilities attend each meeting of the Committee although neither is involved in consideration of any matters relating to their own remuneration and are absented from any such discussion.

Management Committees

Assets & Liabilities Committee

This Committee is chaired by the Chief Executive and during the year, this Committee comprised Non-Executive Directors, Executive Directors and the Head of Risk. As at the year end, the Committee comprised two Executive Directors and members of the Senior Management team. The Committee meets monthly and is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk.

The following Non-Executive Directors were members of this Committee during the year:

- David Bagley
- Kevin Bernbaum

The Chief Executive (Chairman), Finance Director, Head of Risk and Head of Finance are members and attend each meeting of the Committee. The Board is satisfied that the composition of the Committee provides recent and relevant experience.

Mortgage Credit Risk Committee

This Committee meets as frequently as is required to fulfil its duties but meets at least three times a year. It manages mortgage credit risk matters including ensuring that the Society operates within the agreed parameters set out in the Lending Policy.

Product Committee

This Committee meets monthly and more frequently when required. It is responsible for developing and recommending new products and changes to existing products.

Risk & Compliance Committee

This Committee meets monthly to oversee the implementation of risk management policies, including the Risk Management Framework Policy and the Risk Appetite Policy. In addition, the Committee is responsible for monitoring risk appetite limits and early warning escalation triggers. Furthermore, the Committee is responsible for monitoring the annual compliance plan, updating policies and procedures required to meet legal, compliance and regulatory requirements and to assist the Audit, Risk & Compliance Committee in fulfilling its oversight responsibility for the Society's Risk Management Framework.

The Terms of Reference for all Committees are approved by the Board and are available on the Society's website or by writing to the Secretary at the Society's Head Office. Proceedings of all Committees are formally minuted and minutes are reported to and considered by the full Board.

Division of Responsibilities

The offices of Chairman and Chief Executive are held by different people and each role is clearly defined, documented and agreed by the Board. The role of the Chief Executive is to manage the Society's business on a day-to-day basis, being accountable to the Board for the financial and operational performance of the Society and for the formulation of a corporate plan to achieve the strategic objectives set by the Board.

The Chairman

The Chairman's main role is to lead the Board ensuring that it acts effectively and to facilitate communication with the Society's Members on behalf of the Board. The Chairman sets the direction and culture of the Board facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information in order to inform strategic decision making. Under the rules of the Society, the Board elects the Chairman from their number for a twelve-month period.

Non-Executive Directors

The Non-Executive Director role is to:

- Provide leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed;
- Constructively challenge and help develop proposals on strategy, ensuring the necessary financial and human resources are in place for the Society to meet its objectives and review management performance; and
- Agree the Society's values and standards in meeting obligations to Members whilst complying with all statutory and regulatory requirements.

Andrew Horsley is the Society's Vice Chairman. The Vice Chairman acts as a sounding board for the Chairman and will stand in for the Chairman if they are unable to attend a meeting or perform their duties.

Erfana Mahmood is the Society's Senior Independent Director and provides support for the Chairman.

The Senior Independent Director is available to Members if they have concerns regarding their Society membership where contact through the normal channels of either the Chairman or Executive Directors has failed to resolve the matter or for which it is considered inappropriate. The Senior Independent Director is responsible for carrying out the annual appraisal of the Chairman. Erfana is also the Society's Whistleblowing Champion and provides an independent point of contact for members of staff who may wish to raise issues.

The Composition of the Board

At the end of the financial year, the Board comprised five Non-Executive Directors and three Executive Directors, providing a balance of skills and experience appropriate for the requirements of the business. Committee and Board membership is reviewed annually to ensure that appropriate expertise and skills are maintained. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Nominations & Remuneration Committee leads the process for Board appointments and makes recommendations to the Board although the Board makes the final decision. All appointments are made on merit, based on the specific skills, competencies and experience required under the Society's succession plan. The Board considers equality and diversity on the Board although it has adopted the principle that appointments should be made on merit. Vacancies are advertised widely.

Each Director must meet the tests of fitness and propriety prescribed by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Roles that fall into the Senior Managers Regime must also receive regulatory approval.

The Society is committed to diversity and at the year end had a 38% (2018: 44%) female representation on the Board. This is in excess of the recommendation made in the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation.

Members of the Society are entitled to nominate candidates for election to the Board. The rules of the Society clearly set out the procedure for nominating a Director and the Society welcomes nominations from suitably qualified individuals. The Nominations & Remuneration Committee evaluates the ability of Directors to commit the time required for the effective discharge of their role prior to appointment. The letter of appointment and job description set out the minimum time commitment expected. The attendance record during the year of Board and Committee members is set out on page 26 and this is taken into consideration during the annual assessment of each Director's performance.

Development

The Society provides a formal induction for Non-Executive Directors and the Chairman ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. On appointment, all new Directors receive appropriate induction training and ongoing development is provided by attendance at industry courses, seminars and conferences organised by professional bodies. Any development needs are reviewed as part of the annual appraisal of the Board and individual Director's performance and effectiveness and any training needs identified are provided as appropriate.

Management Information and Support

The Chairman ensures that the Board receives sufficient accurate, timely and clear information to enable it to discharge its responsibilities. The Society constantly reviews and improves management information to assist the Committees in discharging their duties. The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

Evaluation

Each year all Directors are subject to a formal appraisal.

The Chairman's performance is assessed by the Senior Independent Director.

The Chairman carries out an appraisal of each individual Non-Executive Director based on an assessment of each Director's contribution to the Board's performance and the overall success of the Society and taking into account the views of the Executive Directors. The Chairman carries out the Chief Executive's appraisal based on a range of business and personal performance objectives. The Chief Executive carries out an appraisal of the Finance Director and Customer Services Director based on a range of business and personal performance objectives agreed at the beginning of each year.

The Board evaluates its overall performance and that of each Committee on an ongoing basis. This process is used to improve the effectiveness of Directors and the Board collectively.

The Non-Executive Directors meet without the Executive Directors present at least once a year. The internal Auditor carries out a Board effectiveness review as part of a rolling audit plan and the Board acts on any recommendations.

The Board has established its own Terms of Reference which include a formal schedule of matters that are reserved to it and regularly evaluates its own performance along with that of each Director.

Re-Election

All new Directors are subject to election by Members at the Annual General Meeting following their appointment to the Board. Directors are appointed for a three year term subject to satisfactory performance. The Board does not believe it is appropriate for the Society to subject all Directors to annual re-election (unless they have served three terms) because of the need to ensure continuity.

Directors are required to seek re-election after three years and every three years thereafter and Non-Executive Directors do not generally serve more than three full terms. Any Non-Executive Director serving for a period in excess of nine years is subject to annual re-election by the Members.

Financial and Business Reporting

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Members to assess the performance, business model and strategy of the Society. The Board has not identified any material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the foreseeable future. Further information is provided in the Statement of Directors' Responsibilities on page 22 and the business performance is reviewed in the Strategic Report on page 6.

Risk Management and Internal Control

The Board determines the Society's risk appetite and strategies for risk management and has ultimate accountability for the maintenance of an effective internal risk control system. Senior management are responsible for designing, operating and monitoring risk management and internal risk control processes. The Audit, Risk & Compliance Committee reviews the adequacy of these processes and the

internal audit function provides independent and objective assurance that the systems and processes are appropriate, and controls effectively applied. The Society has a strong compliance culture and the Board is satisfied, following oversight by the Audit, Risk & Compliance Committee, that the Society's systems are effective and appropriate to the scale and complexity of the Society's business. Further information is provided in the Audit, Risk & Compliance Committee Report on page 27.

Remuneration

The Nominations & Remuneration Committee Report found on page 31 sets out the remuneration policies for Non-Executive Directors, Executive Directors, and Material Risk Takers. This report explains how the Society complies with the Code Principles relating to remuneration.

Dialogue with Members

As a mutual organisation, the Society has Members rather than shareholders. The Society seeks the views of Members in a variety of ways, including face-to-face contact, written correspondence, telephone, email and questionnaires. The purpose of this dialogue is to understand the wishes of Members and better serve their needs.

Constructive Use of the Annual General Meeting (AGM)

Each year the Society sends details of the AGM and voting forms to those Members who are eligible to vote. The resolutions include the election and re-election of Directors, a separate advisory vote on the Nominations & Remuneration Committee Report and any other relevant matters. Members are encouraged to exercise their right to vote and also to attend the AGM. Members can choose to vote by proxy if they are unable to attend the AGM. The distribution of AGM notices (with at least 21 clear days' notice) and the receipt and counting of proxy votes is carried out by independent scrutineers. At the AGM a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are subsequently disclosed on the Society's website.

All members of the Board are present at the AGM each year unless there are exceptional circumstances. Directors are available to meet with Members both before and after the meeting and to answer questions on both a formal and informal basis.

Directors' Attendance Record

The following persons were Directors of the Society during the year, their attendance at Board and Sub-Committee meetings being disclosed together with the total number of such meetings.

	Board	Audit Risk & Compliance	Assets & Liabilities	Nominations & Renumeration
Non-Executive Directors				
John Sandford (Chairman)	10 (10)			
Andrew Horsley (Vice Chairman)	10 (10)	5 (5)		2 (2)
David Bagley	9 (10)	5 (5)	8 (10)	
Kevin Bernbaum	10 (10)	5 (5)	10 (10)	
Erfana Mahmood	10 (10)			2 (2)
Executive Directors				
Stephen Penlington	10 (10)		10 (10)	
Lesley Cairns (to 22 May 2018)	4 (4)		4 (4)	
Angela Kos	10 (10)		10 (10)	
Kim Roby	10 (10)			
Total number of meetings	**10**	**5**	**10**	**2**

(The number in brackets is the maximum number of scheduled meetings that the Director was eligible to attend).

On behalf of the Board

John Sandford
Chairman

27 March 2019

Audit, Risk & Compliance Committee Report

The Audit, Risk & Compliance Committee forms part of the Society's Corporate Governance Framework.

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the following:

- The integrity of the financial statements including significant financial reporting judgements contained therein;
- The effectiveness of the system of internal controls;
- The internal audit and external audit functions. This includes the performance and independence of both the internal and external Auditors, and the engagement of the external Auditor in any non-audit work; and
- The effectiveness of the Risk Management Framework.

This report provides a summary of the Committee's work and how it has discharged its responsibilities during the year.

The composition of the Committee and Committee meeting attendance is described in detail as part of the Corporate Governance Report on page 23.

Minutes of all Committee meetings are distributed to all Board members and the Chair of the Committee reports to the Board at the Board meeting following every Committee meeting.

Key roles and responsibilities as delegated by the Board

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the areas described below.

Financial Reporting

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Annual Report and Accounts of the Society.

This responsibility is discharged through the following:

- Review of the Annual Report and Accounts, for completeness and compliance with prevailing, applicable accounting standards and other regulatory and legal requirements;
- Reporting to the Board on the appropriateness of critical accounting policies and any changes thereto, taking into account the views of the external Auditor;
- Review and challenge of significant financial reporting judgements where they have been applied;
- Review of any correspondence from Regulators in relation to financial reporting; and
- Review of the going concern assessment.

The main areas of focus by the Committee in the year were as follows:

- Loan impairment provisions:
  This is inherently an area of accounting estimate and judgement. A review was undertaken of the estimates and judgements used to determine the timing of recognition and valuation of mortgage loan loss provisions in line with FRS 102;
- Revenue recognition:
  A review was undertaken of the design, implementation and effectiveness of controls in relation to the calculation of interest income and charges, including the timing of fees and commission recognition under the Effective Interest Rate methodologies.

The Committee considers matters raised by the external Auditors and has concluded that there were no adjustments proposed that were material to the Annual Report and Accounts.

The Committee has identified no material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the period of twelve months from the date the financial statements are approved, which is 27 March 2019.

Furthermore, the Committee considers that it has properly discharged its duties in relation to the financial reporting of the Annual Report and Accounts and recommends approval by the Board.

Internal Controls

The Board recognises that robust systems of internal control are essential to the achievement of the Society's strategic objectives and in safeguarding the interests of Members and the Society's assets.

In addition, internal control contributes to effective and efficient operations.

The Committee is responsible for the ongoing review, monitoring and assessment of the Society's Risk Management Framework and seeks to ensure senior management and employees are responsible for departmental internal control. The Committee approves a risk-based internal audit plan each year based on a three year cycle of work.

The internal control framework comprises regular reporting from the senior management team, internal and external Auditors including the following:

- Internal audit plans;
- Reports from the internal Auditor;
- Reports from the Head of Risk; and
- Reports from the Head of Compliance.

The information received and considered by the Committee during the year provided adequate and effective assurance in relation to the Society's internal control framework.

Internal Audit

The internal audit function provides independent assurance to the Board, via the Committee, on the effectiveness of the internal control framework. The Committee is responsible for the appointment and removal of the internal Auditor, approving the risk-based internal audit plan and monitoring relevant activity, including the progress made by management in addressing any audit findings.

In addition, the Committee assesses the effectiveness of the internal audit process through a combination of feedback from Committee members and Society management, completion of standard questionnaires and other external independent information where available.

External Audit

The Committee is responsible for providing oversight of the Society's relationship with the external Auditor.

The Committee is responsible for the following:

- Appointment, reappointment, removal and assessment of independence, objectivity and effectiveness of the external Auditor;
- Recommendation to the Board for the approval of terms and remuneration in respect of audit services provided; and
- Annual approval of the use of external Auditor for non-audit work where necessary.

During the year the external Auditor did not undertake any non-audit services.

The Committee assesses the effectiveness of the external audit process through a combination of feedback from Committee members and Society management, completion of standard questionnaires and other external independent information where available.

Risk Management

The Society's Risk Management Framework is designed to enable the Board to proactively identify, measure, manage, monitor, report and control risks to support the achievement of the Society's Strategy and to ensure fair outcomes for Members.

The Board has implemented a clearly defined Risk Management Framework that contains the following features:

- A risk-focused governance structure;
- Risk policy and risk limits;
- Risk identification, monitoring and reporting processes; and
- An effective internal control framework.

Risk Governance

The Board is ultimately responsible for ensuring that adequate systems of risk management are in place, and that the Society's strategy, risk appetite and risk management are consistent. To support the Board, the Audit, Risk & Compliance Committee provides oversight of the Society's risk management.

The Audit, Risk & Compliance Committee reviews and recommends for approval to the Board the Society's Risk Management Framework Policy, Risk Appetite Statements and the supporting key limits and early warning escalation triggers that underpin them.

The Audit, Risk & Compliance Committee is further supported by the management Risk & Compliance Committee that is responsible for ensuring that appropriate risk management activity is managed. The Head of Risk provides formal updates on risk management to the Board.

Risk Framework

The Society adopts a 'Three Lines of Defence' approach to the management of risk as illustrated below.

1 First Line of Defence

Lies within each business department

Consists of operational activity

Risks are identified

Controls are implemented

Controls are assessed

Reporting through Risk Registers

2 Second Line of Defence

Lies within the Risk and Compliance Functions

Policies are tested and challenged

Risks Appetites are agreed and assessed

Regular monitoring and reporting

Review and Challenge from the Risk Function

Compliance Assurance Reviews

3 Third Line of Defence

Independent Assurance

Internal Audit Reviews

The first line of defence lies within each business department where operational activity takes place. Here, risks are identified, and controls are put into place and assessed. Each department is responsible for updating and monitoring departmental risk registers.

The second line of defence lies within the Risk and Compliance functions, where policies are tested and challenged. In addition, risk appetites, limits and triggers are reviewed and assessed. Key responsibilities for the second line include the creation and maintenance of the Risk Management Framework and Risk Appetite, balancing the challenge and support of the first line of defence. Furthermore, the Risk function is responsible for reviewing and challenging the risks assessed by each business department, including the systems and controls in place to mitigate those risks. The Board and Sub-Committees receive regular risk reports and compliance assurance reports.

The third line of defence is provided through independent assurance activities mainly from internal audit. On an annual basis and thereafter on a rolling three year basis, the Society's internal Auditor undertakes a programme of risk-based audits. The plan covers aspects of both first and second lines of defence. Each audit examines the Society's control environment, tests that controls are robust, and that they work effectively in accordance with the Society's policies and procedures, and wider laws and regulations. Additionally, the audits will review the Society's relevant records and reports for accuracy and reliability. The Audit, Risk & Compliance Committee approve the annual internal audit plan and receive regular updates on the progress made against the plan and the results of each audit visit.

Stress Testing

The Risk Management Framework makes use of stress and scenario testing to consider potential outcomes for the Society. For example, the stresses caused by falling house prices and rising unemployment. The results of stress and scenario testing are used to evaluate the adequacy of the controls in place and to test the Society's response, contingency and recovery plans.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Society are outlined below:

Credit Risk

This is the risk that borrowers or counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due. The Society manages credit risk associated with mortgage borrowers by maintaining a Board-approved Lending Policy. This policy includes clearly defined criteria and processes for approving individual mortgages. By way of example, the criteria include requirements to undertake a full credit history check and affordability assessment of the borrower and a full valuation of the proposed security by a suitably qualified valuer.

The Society maintains an Arrears, Payment Shortfalls, and Repossessions Policy. This clearly stipulates the processes and parameters for managing borrowers with credit problems, including when and how the Society considers forbearance measures. The Society monitors borrowers on an on-going basis, with appropriate and timely action taken on those mortgages which fall into arrears. The policy is reviewed annually by the Mortgage Credit Risk Committee and is recommended to the Board for approval.

Furthermore, the Society maintains a Mortgage Loss Provisioning Policy. This clearly defines the criteria for making appropriate provisions for potential mortgage impairments. The policy is reviewed by the Mortgage Credit Risk Committee and recommended to the Audit, Risk & Compliance Committee for approval.

The Society manages credit risk arising from deposits made with treasury counterparties by maintaining a Board approved Financial Risk Management Policy (FRMP). This includes clearly defined criteria and processes for placing deposits with counterparties. By way of example, the criteria restrict the Society to placing deposits with UK institutions only and counterparties with high quality credit ratings. In addition, the Society operates with maximum exposure limits for individual counterparty exposures.

The FRMP is reviewed annually by the Assets & Liabilities Committee and is recommended to the Board for approval.

Liquidity Risk

This is the risk that the Society, although solvent, either does not have available sufficient financial resources to meet its financial obligations as they fall due or can do so only at excessive cost. The Society manages liquidity risk by maintaining a Board approved Financial Risk Management Policy (FRMP) and an Individual Liquidity Adequacy Assessment Process (ILAAP). The FRMP clearly defines the parameters that must be met to ensure sufficient funds are available at all times, including times of stress, in liquid form. The purpose of the ILAAP is to document and demonstrate the Society's overall liquidity adequacy setting out its approach to liquidity and funding.

Maintaining an adequate amount and composition of liquidity is essential to cover cash flow imbalances, fluctuations in funding, maintain public confidence in the solvency of the Society and to enable it to meet its financial and regulatory obligations. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.

The FRMP and ILAAP are reviewed annually by the Assets & Liabilities Committee and are recommended to the Board for approval.

Interest Rate Risk

This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates. The Society manages interest rate risk arising from the differing interest rate characteristics and maturity profile of its mortgage and savings products, by maintaining a Board approved FRMP. This policy defines the Society's risk appetite for interest rate risk and includes clear limits and triggers for off-setting assets and liabilities. In addition, the policy includes limits and triggers for Basis Risk. Basis Risk arises when interest rates with the same maturity profile may behave in an unequal way since there is no legal or contractual relationship between the two rates, for example, Bank Base Rate and London Inter-bank Offered Rate. Furthermore, the policy allows for the use of financial derivative instruments where appropriate.

The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in note 26 on page 52.

The FRMP is reviewed annually by the Assets & Liabilities Committee and is recommended to the Board for approval.

Operational Risk

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Society this definition includes legal risk, strategic risk and reputational risk. The Society manages operational risk by maintaining a Board approved Operational Resilience Policy. This policy sets out the framework for the identification, protection and detection measures and respond and recovery activities for each operational risk. The policy is reviewed annually by the Risk & Compliance Committee and recommended to the Audit, Risk & Compliance Committee for approval.

Operational risk registers are maintained by senior management for each department and are subject to regular review and assessment by the Risk & Compliance Committee.

In addition, the mitigating controls are equally subject to regular review and assessment. Furthermore, operational risks are reported to the Risk & Compliance Committee on a monthly basis (previously quarterly until June 2018).

In addition, the Society faces operational risk in the form of cyber risk. This is the risk of financial loss, disruption or damage arising from failure of the information technology systems. The Society holds cyber insurance to mitigate any potential financial loss or disruption. Furthermore, the Society manages cyber risk by maintaining a Cyber Security Policy and a Cyber Incident Response Plan. These documents detail the activities, responsibilities and chain of command capabilities that the Society employs upon the detection or alert relating to a cyber incident. The Cyber Security Policy and a Cyber Incident Response Plan is reviewed annually by the Audit, Risk & Compliance Committee and recommended to the Board for approval.

Strategic Risk - Brexit Risk

This is the risk that a significant amount of uncertainty remains regarding the future relationship between the United Kingdom and Europe. As a UK organisation, the Society has no direct exposure to the EU. However, the wider economic implications may have an impact on the Society. The Society has carried out stress tests to assess the impact of possible wider economic implications, for example, falling house prices and rising unemployment levels. The Society maintains adequate levels of liquidity and capital and is able to withstand the stresses it has undertaken. Our Board remains vigilant and continues to watch for any adverse signs as the UK navigates its way through the Brexit negotiations.

Regulatory Risk

This is the risk that changing laws, the volume and complexity of regulatory requirements and the risk of non-compliance with increased regulatory requirements may impact the Society's ability to compete and grow. The Society has an internal Compliance function to identify and monitor regulatory changes to allow management to respond in an appropriate manner. This risk is regularly reviewed by the Board.

Conduct Risk

This is the risk that actual or potential Member detriment arises, or may arise, from the way the Society conducts its business. The Board has primary responsibility for ensuring that the way the Board conducts dealings with its Members is fair and in their interests. This culture is embedded throughout the business and the Board considers all matters that impact upon the fair treatment of our Members.

The Society manages conduct risk by maintaining a Conduct Risk Framework Policy. This policy describes the Board's risk appetite for conduct risk and details the responsibilities for ensuring that the Society conducts its dealings with Members in a fair and transparent manner that is in their best interests. By way of example, matters are considered in relation to product design, terms and conditions, complaints, fees and charges and ensuring that staff are trained and suitably qualified. The Conduct Risk Framework Policy is reviewed annually by the Risk & Compliance Committee and recommended to the Audit, Risk & Compliance Committee for approval.

Audit, Risk & Compliance Committee Effectiveness

The Committee undertakes a self-assessment review to monitor the performance against its Terms of Reference. Feedback is received from Committee members and attendees by the completion of standard questionnaires and other external independent information where available.

On behalf of the Audit, Risk & Compliance Committee

Kevin Bernbaum
Chairman

27 March 2019

Nominations & Remuneration Committee Report

The purpose of this report is to describe the Society's approach to remuneration for the Non-Executive Directors, Executive Directors and Material Risk Takers (MRT) and how the Society pays regard to the principles of the UK Corporate Governance Code relating to remuneration, the FCA's Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive IV (CRD IV).

The Procedure for Determining Remuneration

The Nominations & Remuneration Committee is a Board Sub-Committee that forms part of the Society's Corporate Governance Framework. The Committee operates within the Terms of Reference agreed by the Board which are reviewed annually. The Committee comprises two Non-Executive Directors. The Chief Executive attends by invitation but takes no part in the discussion regarding his own remuneration. The Head of Risk provides an Independent Report on Remuneration to the Nominations & Remuneration Committee and Board regarding pay awards. The Committee reviews Non-Executive Directors', Executive Directors' and MRT's remuneration annually, taking into consideration data from comparable organisations and from the market within which the Society operates.

Minutes of all Committee meetings are distributed to all Board members and the Chairman of the Committee reports to the Board at the Board meeting following every Committee meeting.

The Society has adopted a simple remuneration structure which is appropriate to its business and is efficient and cost effective in promoting its long-term strategy. Transparent salary, other benefits and pension contributions are supplemented by a modest and straight-forward bonus scheme that promotes continued involvement in the Society's ongoing success.

The Remuneration Policy does not include significant performance related variable remuneration. The Society does not offer guaranteed variable remuneration, share options, or medium or long-term incentive schemes. The Society does not offer variable remuneration, commission, retention awards or cash payments in excess of a set percentage of overall basic salary. This is considered an important element of risk management so that variable remuneration does not form a significant element of total remuneration and so avoids incentivising behaviour inconsistent with the proper management and control of risk. The Nominations & Remuneration Committee will consider the maximum to be paid in terms of variable remuneration on an annual basis.

The Policy for Remuneration

Non-Executive Directors' Remuneration

The Society's remuneration policy is to reward Directors through fees according to the time commitment and their expertise, experience and overall contribution to the successful performance of the Society.

The remuneration of all Non-Executive Directors is approved by the Committee on an annual basis. The elements of Non-Executive Directors' remuneration and how each element is determined are described in the table below.

Element	Approach
Basic fee	Reviewed annually taking into consideration fees from comparable financial services organisations and from the market within which the Society operates.
Additional fees	Payable for additional responsibilities such as Chairman, Vice-Chairman and Sub-Committee Chairman.
Other items	Payable as an additional market forces factor for Non-Executive Directors living outside a 100-mile radius of the Society.

Non-Executive Directors do not participate in any performance pay scheme, bonus, pension arrangements or other benefits.

Executive Directors' and Material Risk Takers' Remuneration

The Society's remuneration policy is to set remuneration levels which will attract and retain Executive Directors and to set rewards that reflect responsibilities, time commitment and overall contribution to the successful performance of the Society.

The remuneration of all Executive Directors is approved by the Committee on an annual basis. The elements of Executive Directors' remuneration and how each element is determined are described in the table opposite.

Element	Approach
Basic fee	Reviewed annually taking into consideration responsibilities, individual performance and salaries from comparable financial services organisations and from the market within which the Society operates.
Bonus	Reviewed annually taking into consideration a range of financial and non-financial performance measures established to ensure the business is managed in the best interests of Members and benchmarked against peer societies. Bonus arrangements are not guaranteed and are usually set at a percentage of overall basic salary.
Pension	The Society operates a defined contribution pension scheme, where both the Society and the individual make contributions to the private pension arrangements and does not offer a defined benefits pension scheme.
Benefits	A number of benefits may be provided including car allowance and private medical insurance and other benefits as provided to employees generally.

Contractual Terms

Non-Executive Directors have contracts for services and are appointed for an initial term of three years.

The Chief Executive is employed on a contract of employment that may be terminated by either party giving twelve months' notice.

The Finance Director and Customer Services Director are employed on a contract of employment that may be terminated by either party giving six months' notice.

Directors' Remuneration

Total remuneration of the Society's Directors is shown in the tables opposite.

Non-Executive Directors

	2019 £000	2018 £000
John Sandford (Chairman)	28	28
Andrew Horsley (Vice Chairman)	24	24
David Bagley	20	19
Kevin Bernbaum	22	22
David Jenkinson*	-	6
Erfana Mahmood	19	19
Total	**113**	**118**

Executive Directors

2019	Salary £000	Pension Contributions £000	Bonus £000	Benefits £000	Total £000
Stephen Penlington	142	20	12	1	175
Lesley Cairns†	32	3	9	-	44
Angela Kos	110	10	9	1	130
Kimberley Roby	78	7	7	-	92
Total	**362**	**40**	**37**	**2**	**441**

2018	Salary £000	Pension Contributions £000	Bonus £000	Benefits £000	Total £000
Stephen Penlington	133	19	17	-	169
Lesley Cairns	94	9	12	1	116
Angela Kos	88	8	11	1	108
Kimberley Roby^	31	3	-	-	34
Total	**346**	**39**	**40**	**2**	**427**

* to 23 May 2017

† to 22 May 2018

^ from 1 September 2017

Summary of Material Risk Takers' Remuneration

Total remuneration of the Society's Material Risk Takers (MRT) is shown in the tables below.

2019	Number during the year	Fixed Remuneration £000	Variable Remuneration* £000	Total £000
Non-Executive Directors	5	113	-	113
Executive Directors	4	404	37	441
Material Risk Takers	10	503	9	512
Total	**19**	**1,020**	**46**	**1,066**

2018	Number during the year	Fixed Remuneration £000	Variable Remuneration* £000	Total £000
Non-Executive Directors	6	118	-	118
Executive Directors	4	387	40	427
Material Risk Takers	2	75	8	83
Total	**12**	**580**	**48**	**628**

*Variable remuneration reflects the annual bonus paid by the Society.

During the year the number of MRT increased due to an increase in management committee membership.

On behalf of the Nominations & Remuneration Committee

Andrew Horsley
Chairman

27 March 2019

Independent Auditor's Report

to the Members of The Chorley and District Building Society

1. Our opinion is unmodified

We have audited the annual report and accounts of The Chorley and District Building Society for the year ended 4 February 2019 which comprise the Society Statement of Income and Movements in Members' Interests, Statement of Financial Position, Cash Flow Statement and the related notes, including the accounting policies in note 1.

In our opinion the annual report and accounts:

- give a true and fair view of the state of affairs of the Society as at 4 February 2019 of the income and expenditure of the Society;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit, Risk & Compliance Committee.

We were first appointed as auditor by the Members on 23 May 2017. The period of total uninterrupted engagement is for the 2 financial years ended 4 February 2019.

We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	**£54k (2018:£68.7k)**
Annual report and accounts as a whole	5% of profit before tax (2018: 1% of interest income)

Risks of material misstatement

		vs 2018
Event Driven	**New:** The impact of uncertainties due to Britain exiting the European Union on our audit	▲
Recurring risks	Impairment of loans and advances to customers	◀▶
	Revenue recognition – EIR adjustment	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual report and accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual report and accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
The impact of uncertainties due to Britain exiting the European Union on our audit *Refer to page 6 (strategic report) and page 29 (principal risks).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in Impairment of loans and advances to customers and Revenue recognition – EIR adjustment below, and related disclosures and the appropriateness of the going concern basis of preparation of the annual report and accounts (see below). All of these depend on assessments of the future economic environment and the Society's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Society's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing Impairment of loans and advances to customers, Revenue recognition – EIR adjustment and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Impairment of loans and advances to customers, and Revenue recognition - EIR adjustment we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under Impairment of loans and advances to customers and Revenue recognition – EIR adjustments, we found the resulting estimates and related disclosures of subjective estimation and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Key audit matter	The risk	Our response
Impairment of loans and advances to customers (Impairment £374,000; 2018: £398,000) *Refer to page 27 (Audit, Risk & Compliance Committee Report), page 45 (accounting policy) and page 49 (financial disclosures)*	**Subjective estimate** Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The Directors judge individual impairments by reference to loans that are in possession, or are in arrears, or are subject to forbearance measures or other identified factors affecting ability to pay. The collective impairment is derived from a model that uses a combination of the Society's historical experience and, due to the Society's limited loss experience, significant management judgement. In particular, judgement is required on the key assumptions of probability of defaults existing, outcome period and forced sale discounts against collateral. The impairment model is most sensitive to movements in the forced sale discount assumptions. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual report and accounts as a whole. The annual report and accounts (note 1) disclose the sensitivity estimated by the Society.	**Our procedures included:** • **Benchmarking assumptions:** We compared the key assumptions used in the model of probability of default, outcome period and forced sale discounts with externally available data. • **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of defaults, outcome period and forced sale discounts by performing stress testing to help us assess the areas of potential additional focus. • **Historical comparison**: We assessed the probability of default assumption used in the collective and individual model, against the Society's historical experience. • **Tests of detail:** We identified a selection of loans using risk based sampling which includes specific items identified based on risk characteristics of current or historical arrears, forbearance flagging and other loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the Society's specific impairment provision estimate. • **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** We found the resulting estimate of impairment to be acceptable. (2018: acceptable)

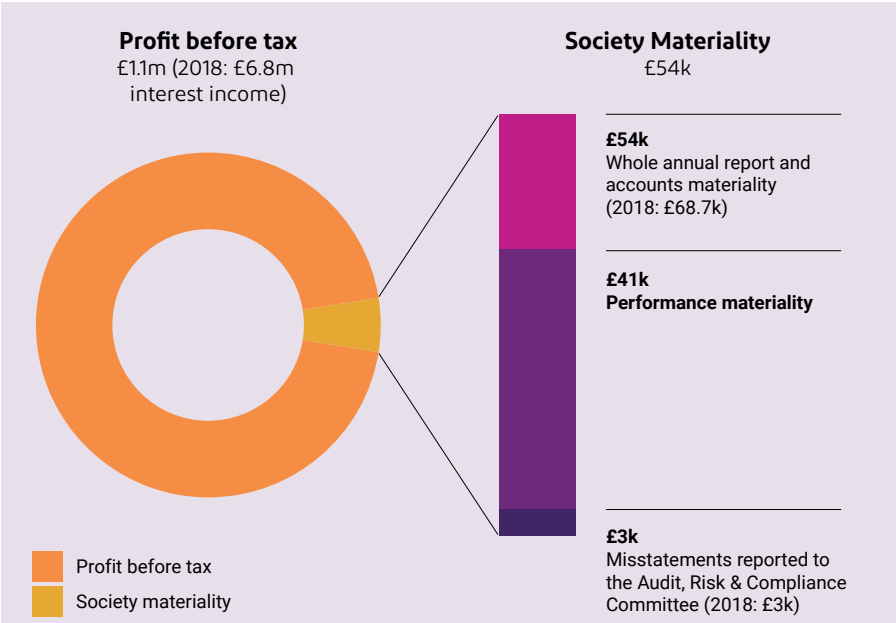
Key audit matter	The risk	Our response
Revenue recognition – EIR adjustments (Society EIR revenue £231,000; 2018: £183,000) *Refer to page 27 (Audit, Risk & Compliance Committee Report), page 45 (accounting policy) and page 45 (financial disclosures)*	**Subjective estimate:** Using an excel based model, interest earned and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. The Directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period and the fees and commissions that should be included within the model. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid. In particular, judgement is required on the key assumptions of the fees and costs included and the expected lives of the loans. The EIR model is most sensitive to movements in the expected lives assumptions. The effect of these matters is that, as part of our risk assessment, we determined that income recognition has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual report and accounts as a whole. The annual report and accounts (note 1) disclose the sensitivity estimated by the Society.	**Our procedures included:** • **Our sector experience:** We assessed the key assumptions behind the expected customer lives and profiles of significant loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. • **Sensitivity analysis:** We assessed the model for its sensitivity to changes in the key assumptions by considering different profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus. • **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. • **Reperformance:** We performed recalculations of the EIR adjustment to test the model is in compliance with relevant accounting standard requirements and model inputs are complete and accurate. • **Assessing transparency**: We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** We found the resulting estimate of EIR to be acceptable. (2018: acceptable)

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

Materiality for the annual report and accounts as a whole was set at £54k (2018: £68.7k), determined with reference to a benchmark of Profit before tax (of which it represents 5% (2018: 1% of interest income)).

We consider Profit before tax to be the most appropriate benchmark as it provides a more accurate reflection of performance year on year than interest income.

We agreed to report to the Audit, Risk & Compliance Committee any corrected or uncorrected identified misstatements exceeding £3k, in addition to other identified misstatements that warranted reporting on qualitative grounds.



4. We have nothing to report on going concern

The Directors have prepared the annual report and accounts on the going concern basis as they do not intend to liquidate the Society or to cease its operations, and as they have concluded that the Society's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the annual report and accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Society's business model, including the impact of Brexit, and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

As these were risks that could potentially cast significant doubt on the Society's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Society's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of a disorderly Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the annual report and accounts.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the annual report and accounts. Our opinion on the annual report and accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual report and accounts audit work, the information therein is materially misstated or inconsistent with the annual report and accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

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

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 22, the Directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual report and accounts

that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the annual report and accounts as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual report and accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual report and accounts from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the annual report and accounts varies considerably.

Firstly, the Society is subject to laws and regulations that directly affect the annual report and accounts including financial reporting legislation (including related building society legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related annual report and accounts items.

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual report and accounts, for instance through the imposition of fines or litigation or the loss of the Society's licence to operate. We identified the following areas as those most likely to have such an effect, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related annual report and accounts items. The actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual report and accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the annual report and accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Alain de Braekeleer
Senior Statutory Auditor

for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

27 March 2019

Statement of Income and Movements in Members' Interests

For the 52-week period ended 4 February 2019

	Note	2019 £	2018 £
Interest receivable and similar income	2	6,937,585	6,857,383
Interest payable and similar charges	3	(2,422,950)	(1,923,065)
Net interest income		4,514,635	4,934,318
Income from investments	4	2,763	2,693
Fees and commissions receivable		55,813	59,573
Fees and commissions payable		(28,308)	(34,427)
Total income		4,544,903	4,962,157
Administrative expenses	5	(3,305,421)	(3,231,401)
Depreciation and amortisation	5	(191,380)	(206,677)
Operating profit before provisions, FSCS levy and taxation		1,048,102	1,524,079
Provisions for impairment losses	13	22,923	(64,969)
Other provisions including FSCS Levy	6	22,943	79,268
Operating profit before recovery of losses on loans to banks		1,093,968	1,538,378
Recovery of losses on loans to banks	11	-	2,990
Profit on ordinary activities before tax		1,093,968	1,541,368
Tax on profit on ordinary activities	9	(219,232)	(307,466)
Profit for the financial year after tax		874,736	1,233,902
Members' interests at the beginning of the year		18,577,102	17,343,200
Members' interests at the end of the year		19,451,838	18,577,102

The Notes on pages 43 to 57 form part of these accounts.

The above results are all derived from continuing operations.

Statement of Financial Position

As at 4 February 2019

	Note	2019 £	2018 £
Assets			
Liquid Assets			
Cash in hand		211,829	269,987
Treasury bills	10	499,751	-
Loans and advances to credit institutions	11	43,229,978	52,059,856
Loans and advances to customers			
Loans fully secured on residential property	12	191,045,778	177,281,963
Other loans – fully secured on land	12	720,441	997,379
Investments in associates	14	153,898	184,252
Intangible fixed assets	15	240,981	217,304
Tangible fixed assets	16	1,618,236	1,647,279
Other assets	17	23,456	55,302
Prepayments and accrued income	18	389,225	402,563
Total Assets		**238,133,573**	**233,115,885**
Liabilities			
Shares	19	214,549,059	209,407,075
Amounts owed to credit institutions	20	3,003,835	3,503,533
Amounts owed to other customers	21	476,957	886,436
Other liabilities	22	250,591	313,090
Accruals and deferred income	23	398,013	395,276
Provision for liabilities	6	3,280	33,373
		218,681,735	214,538,783
General reserve		19,451,838	18,577,102
Total Liabilities		**238,133,573**	**233,115,885**

The Notes on pages 43 to 57 form part of these accounts.

Approved by the Board of Directors on 27 March 2019.

John Sandford
Chairman

Andrew Horsley
Vice Chairman

Stephen Penlington
Chief Executive

Cash Flow Statement

For the 52-week period ended 4 February 2019

Cash Flows from Operating Activities	Note	2019 £	2018 £
Profit before tax		1,093,968	1,541,368
Adjustments for:			
Depreciation and amortisation		191,380	206,677
(Decrease)/increase in impairment of loans and advances		(23,937)	55,851
Loss on disposal of tangible fixed assets		117	2,606
Changes in operating assets and liabilities			
Decrease/(increase) in prepayments and accrued income		13,338	(45,133)
Increase in accruals and deferred income		2,737	103,386
Decrease in other liabilities		(31,655)	(89,225)
Increase in loans and advances to customers		(13,462,941)	(18,130,928)
Increase in shares		5,141,984	9,486,535
(Decrease)/increase in amounts owed to credit institutions and other customers		(909,177)	1,809,202
Decrease/(increase) in loans and advances to credit institutions		9,742,946	(1,020,620)
Increase in treasury bills		(499,751)	-
Taxation paid		(248,322)	(226,249)
Net cash inflow from/(used in) operating activities		1,010,687	(6,306,530)
Cash flow from investing activities			
Purchase of tangible fixed assets	16	(37,864)	(42,881)
Purchase of intangible fixed assets	15	(148,267)	(118,101)
Proceeds on disposal of tangible fixed assets		-	88
Proceeds on repayment of loan	14	30,354	-
Net cash inflow from/(used in) investing activities		(155,777)	(160,894)
Net increase/(decrease) in cash and cash equivalents		854,910	(6,467,424)
Cash and cash equivalents at the beginning of the year		42,289,074	48,756,498
Cash and cash equivalents at the end of the year		43,143,984	42,289,074
Cash and cash equivalents consist of:			
Cash in hand		211,829	269,987
Loans and advances to credit institutions repayable on demand	11	34,182,155	34,519,087
Loans and advances to credit institutions repayable in not more than 3 months	11	8,750,000	7,500,000
Cash and cash equivalents		43,143,984	42,289,074

Notes to the Accounts

1. Statement of Accounting Policies

1.1 General Information

The Chorley and District Building Society (the Society) is incorporated in Lancashire, UK under the Building Societies Act 1986. The address of its registered office is Key House, Foxhole Road, Chorley, PR7 1NZ.

1.2 Statement of Compliance

The financial statements of The Chorley and District Building Society are prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and UK applicable accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

1.3 Summary of Significant Accounting Policies

The principal accounting policies are summarised below. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

Basis of Preparation
The financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102 and the Building Societies (Accounts and Related Provisions) Regulations 1998. The financial statements have been prepared under the historical cost accounting convention as modified by the recognition of certain financial instruments at fair value as set out in the accounting policies.

Going Concern
The current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

The Directors consider that:

- The Society maintains an appropriate level of liquidity sufficient to meet the normal demands of the business and the requirements which might arise in stressed circumstances;
- The availability and quality of liquid assets is such that funds are available to repay exceptional demand from retail saver Members;
- Other assets are primarily in the form of mortgages secured on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provisions are made where appropriate; and
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements.

The Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the accounts are prepared on a going concern basis.

Total Income
Interest on outstanding mortgage balances is credited to the Statement of Income and Movements in Members' Interests using the effective interest rate method. The effective interest method is the rate that exactly discounts estimated cash flows to zero, through the expected life of the instrument. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the Statement of Income and Movements in Members' Interests. This policy also applies to accounts where a discounted rate of interest is charged.

Fees and commissions that are integral to the effective interest rate are included in its measurement. Other fees and commissions are recognised as the related services are performed and include insurance commissions receivable in the year net of insurance commission payable. Insurance agency commissions received or receivable that do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the agent defers the commission, or part of it, and recognises it as revenue over the period during which the policy is in force.

Taxation
The charge for taxation is based on the result for the year and considers taxation deferred because of timing differences between the treatments of certain items for taxation and accounting purposes.

Deferred tax is provided at current rates on a non-discounted basis, on all timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation.

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.

Deferred tax is measured using tax rates and laws that have been enacted or substantially enacted by the period end and that are expected to apply to the reversal of the timing difference.

Fixed Assets and Depreciation
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

The costs of fixed assets are written down to their estimated realisable value over their estimated useful lives as follows:

Using the straight-line method:
- Freehold buildings at the rate of 2.2% per annum

Using the reducing balance method:
- Equipment at the rate of 10% to 75% per annum
- Fixtures and fittings at the rates of 10% to 25% per annum

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 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 profit or loss and included in the Statement of Income and Movements in Members' Interests.

Intangible Assets
FRS 102 requires judgement to be exercised when determining whether software costs should be recognised as tangible or intangible assets. Where software is regarded as an integral part of the related hardware and the hardware cannot operate without the piece of software, it is to be treated as a tangible asset. However, where the software is not an integral part of the related hardware e.g. computer software, it is to be treated as an intangible asset. Management have

decided that software costs are not an integral part of the related hardware and so have classified these costs as an intangible asset.

Intangible assets are stated at historical purchase cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated, using the reducing balance method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software development at the rate of 50% per annum
- Computer software at the rate of 25% per annum

The useful economic life was assessed at the time of purchase. 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. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Society are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

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.

Impairment of Non-Financial Assets
At each year end date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

Employee Benefits
The Society provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

i. 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.

ii. Pension Costs
The Society operates a defined contribution pension scheme for all its employees, the funds of which are separate from those of the Society. Contributions are charged to the Statement of Income and Movements in Members' Interests in the period to which those contributions relate.

Financial Instruments
The Society has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets
Basic financial assets, including liquid assets and loans and advances to customers, are initially recognised at transaction price including transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Income and Movements in Members' Interests.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the Statement of Income and Movements in Members' Interests, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii Financial liabilities
Basic financial liabilities, including amounts owed to credit institutions and other customers are initially recognised at transaction price including transaction costs, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present

value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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

Cash and Cash Equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Impairment of Loans and Advances to Customers
Individual assessments are made of all loans and advances against properties which are in possession, or in arrears by two months or more, or are subject to forbearance measures or other significant cases of concern. Individual impairment allowances are made against those loans and advances where there is objective evidence of impairment.

If there is objective evidence of impairment a specific provision is made to cover anticipated losses. This is calculated as the difference between the current achievable market value of the security, calculated by applying an industry recognised national house price index to original valuations on advance, and the outstanding loan balance, after making appropriate allowance for costs of repossession and sale.

In addition, where there is no objective evidence, a collective provision is made on a portfolio basis to reflect the probability that other loans may also be impaired at the year end date with the result that the amount advanced may not be recovered in full. Such provisions are calculated based on estimated loss factors using historical experience of default. The rates are regularly reviewed in the light of actual experience.

Accruals and Deferred Income
Accruals are made to recognise economic benefits and events regardless of when the cash transaction occurs.

Recognition of certain fee income charged to the customers is deferred until the risks and rewards are fully transferred.

Investments
Investment in an associate is held at cost less accumulated impairment losses.

Critical judgements and estimates in applying the accounting policy
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

- Effective Interest Rate (EIR)
To calculate the appropriate EIR, certain assumptions are made in respect of the expected lives of specific asset portfolios which take into account such factors as the terms of the particular product, historic repayment data and prevailing economic conditions. These estimates are reviewed on a regular basis to ensure they reflect the portfolio's actual performance.

Sensitivity analysis has been carried out on the expected life of mortgages and shown that an increase in expected life of one month would change the carrying value of mortgages by £127,269 with a corresponding increase to income.

- Provisions for impairment on loans and advances to customers
The Society reviews its mortgage advances portfolio at least on a monthly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates).

Sensitivity analysis has been carried out in respect of the key estimates and indicated that a 10% rise in the probability of default would increase the provision for impairment on loans and advances to customers by £66,082 and would result in a corresponding charge to the Statement of Income and Movements in Members' Interests. Further analysis showed that a 5% reduction in the amount of collateral we expect to recover in the event of repossession would lead to a further £190,453 increase in the provision and a corresponding charge to the Statement of Income and Movements in Members' Interests. The amount of collateral held in respect of those provisions would increase from £2,773,772 to £5,295,248 as a result of more mortgages being provided for.

2. Interest Receivable and Similar Income

	2019 £	2018 £
On loans fully secured on residential property	6,612,552	6,632,264
On other loans	38,684	48,345
On other liquid assets	286,349	176,774
	6,937,585	6,857,383

During the year there were mortgage incentives that were charged against interest receivable of £60,152 (2018: £54,689). The movement in the effective interest rate adjustment during the year was included within interest receivable of £231,863 (2018: £183,154).

3. Interest Payable and Similar Charges

	2019 £	2018 £
On shares held by individuals	2,405,244	1,906,886
On deposits and other borrowings	17,706	16,179
	2,422,950	1,923,065

4. Income from Investments

	2019 £	2018 £
Income from loan to Mutual Vision Technologies Limited (see note 14)	2,763	2,693

5. Administrative Expenses

	2019 £	2018 £
Employee costs (including Executive Directors)		
Wages and salaries	1,814,372	1,775,679
Social security costs	173,946	165,264
Pension and other costs	128,058	137,492
	2,116,376	2,078,435
Other administrative expenses	1,189,045	1,152,966
	3,305,421	3,231,401

In addition to the other administrative expenses above are the following amounts, in respect of:

Depreciation and Amortisation	191,380	206,677

Services provided by the Society's Auditor

	2019 £	2018 £
Fees payable for the audit	50,919	50,234
Audit-related assurance services	-	3,466
	50,919	53,700

Remuneration of the auditor disclosed above excludes VAT.

6. Provision for liabilities

	2019 £	2018 £
FSCS Levy		
Balance brought forward	33,373	144,037
Release for the year	(22,943)	(79,268)
Paid in the year	(7,150)	(31,396)
	3,280	33,373

Refer to note 24 for further details of the above provision.

7. Employees

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

	Full Time		Part Time	
	2019	2018	2019	2018
Head Office	35	37	15	12
Branch Offices	6	6	3	3
	41	**43**	**18**	**15**

8. Remuneration of and Transactions with Directors and other Related Party Transactions

a) Directors' remuneration
Total Directors' remuneration amounted to £553,990 (2018: £545,073). Full details of the Directors' remuneration and key management compensation are given in the Nominations & Remuneration Committee Report on page 31.

b) Directors' loans and transactions
At 4 February 2019 there were 2 (2018: 3) outstanding mortgage loans to 2 (2018: 3) Directors and connected persons that had been granted in the ordinary course of business, amounting in aggregate to £311,467 (2018: £563,389).

A Register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 4 February 2019, will be available for inspection at the Head Office for a period of 15 days up to and including the 160th Annual General Meeting being held on 21 May 2019.

c) Other Directors' transactions
All Directors of Building Societies are required to maintain a savings balance of at least £1,000 each in that Society. All accounts have the same terms and conditions as available to customers of the Society. At 4 February 2019 the aggregate balances were £55,738 (2018: £127,051).

d) Key management compensation
Key management comprise Non-Executive Directors, Executive Directors and Material Risk Takers. During the year the number of MRT increased from two to ten due to an increase in management committee membership. The compensation paid or payable to key management for employee services is shown below:

	2019 £	2018 £
Salaries and other short-term benefits	1,065,841	628,142

Directors have no long-term incentive schemes or defined benefit pension schemes. During the year the Society made payments into a defined contribution pension scheme on behalf of Executive Directors and this is shown in the Nominations & Remuneration Committee Report on page 31.

e) Related party transactions
Mutual Vision Technologies Limited, a related party of which Stephen Penlington is a Director, received director services in the year to the value of £3,385 (2018: £3,044). As at 4 February 2019, £3,135 (2018: £3,044) was owed to the Society by Mutual Vision Technologies Limited. The Society holds an investment in Mutual Vision Technologies Limited as detailed in note 14.

During the financial year a total of £227,866 (2018: £227,547) was paid to Mutual Vision Technologies Limited in respect of IT services.

As at 4 February 2019 an amount of £86,402 (2018: £85,626) was owed to the Society by Mutual Vision Technologies Limited in respect of prepaid software maintenance services. In addition, as at 4 February 2019, an amount of £116,758 (2018: £129,067) was owed to the Society by Mutual Vision Technologies Limited in respect of prepaid software development services.

9. Tax on Profit on Ordinary Activities

	2019 £	2018 £
a) The tax charge for the year comprises:		
Corporation tax at 19.00% (2018: 19.16%)	184,666	245,604
Adjustment in respect of prior year	2,720	1,668
Current tax charge for the year	187,386	247,272
Deferred taxation at 19.00% (2018: 19.16%) (note 17)	31,846	60,194
Tax on profit on ordinary activities	219,232	307,466
b) Factors affecting the tax charge for the year:		
The tax assessed for the year differs to the standard rate of corporation tax in the UK 19.00% (2018: 19.16%)		
Profit on ordinary activities before taxation	1,093,968	1,541,368
Taxation charge at 19.00% (2018: 19.16%)	207,854	295,309
Effects of:		
Expenses not deductible for tax purposes	882	5,631
Impact of changes in tax rate	7,776	4,858
Adjustment in respect of prior year	2,720	1,668
Tax on profit on ordinary activities	219,232	307,466

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

10. Treasury Bills

Held to maturity investments

	2019 £	2018 £
Treasury bills	499,751	-
Treasury bills have the following maturities:		
In not more than three months	499,751	-

All treasury bills are held with the intention of use on a continuing basis in the Society's activities and are classified as held to maturity investments.

Movement in held to maturity investments

Movement during the year of held to maturity investments is analysed as follows:

	2019 £	2018 £
Brought forward	-	-
Additions and renewals	499,191	-
Disposals and maturities	-	-
Accrued interest	560	-
Carried forward	499,751	-

Treasury bills held by the Society represent high quality unencumbered treasury bills issued by the Bank of England in accordance with the Regulator's liquidity regulations.

11. Loans and Advances to Credit Institutions

	2019 £	2018 £
In the ordinary course of business loans and advances to credit institutions are repayable from the year end date as follows:		
Accrued interest	47,823	40,769
Repayable on demand	34,182,155	34,519,087
Other loans and advances by residual maturity repayable:		
In not more than three months	8,750,000	7,500,000
In more than three months but not more than one year	250,000	10,000,000
	43,229,978	52,059,856

Provisions for impairment on Loans and Advances to Credit Institutions	2019 £	2018 £
Brought forward	-	-
Release for the year	-	2,990
Utilised during the year	-	(2,990)
Carried forward	-	-

In 2018, the Society recovered £2,990 as the remaining amount of its Landsbanki Island hf debt.

12. Loans and Advances to Customers

	2019 £	2018 £
Maturity Analysis: The remaining maturity of loans and advances to customers from the year end date is as follows:		
Properties in possession	-	-
Repayable on demand	374	14,009
Repayable with remaining maturity:		
In not more than three months	1,438,335	1,083,088
In more than three months but not more than one year	4,117,485	3,767,205
In more than one year but not more than five years	27,268,621	23,741,718
In more than five years	159,105,098	150,092,816
	191,929,913	178,698,836
Deduct: Provisions for impairment losses (note 13)	(374,299)	(398,236)
Add/(deduct): Effective Interest Rate adjustment	210,605	(21,258)
	191,766,219	178,279,342

Where accounts are in arrears at the year end, the whole of the outstanding balance, including the arrears element, has been included in the appropriate maturity section, depending on the original anticipated date of maturity when the advance was made.

13. Provisions for Impairment Losses

	Loans Fully Secured on Residential Property		
	£ Specific	£ Collective	£ Total
Brought forward	292,106	106,130	398,236
Utilised during the year	(1,014)	-	(1,014)
(Released)/charged during the year	(72,827)	49,904	(22,923)
Carried forward	218,265	156,034	374,299

14. Investments

Associated undertaking

The carrying value of the Society's investment in Mutual Vision Technologies Limited was as follows:

Investment in Mutual Vision Technologies Limited

	2019 £	2018 £
Brought forward	184,252	184,252
Loan repayment	(30,354)	-
Carried forward	153,898	184,252

The Society holds a 14.36% holding in Mutual Vision Technologies Limited, an unlisted company registered in England and operating in the United Kingdom, originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier.

The Company has a 31 December year end. The Society considers key metrics to assess the financial strength of the Company on an annual basis.

The investment is an associate held at cost less accumulated impairment losses. There is no material difference when using the equity method of measurement.

On 4 February 2019 the Society's investment, which is an associated undertaking, was represented by:

	£
10,812 fully paid 1p Ordinary Shares, (acquired at 0.01p per share)	108
1,139 fully paid 1p Ordinary Shares, (acquired at 0.266p per share)	303
2,425 fully paid 1p Ordinary Shares, (acquired at 1.774p per share)	4,302
In total, 14,376 shares (giving the Society a 14.36% holding)	4,713
Loan	149,185
	153,898

The Directors of the Society have reviewed the financial performance and financial position of Mutual Vision Technologies Limited as reported in that Company's latest Annual Report. They have also reviewed the Business Plan of Mutual Vision Technologies Limited and have concluded that there has been no impairment of the Society's investment.

The loan due from Mutual Vision Technologies Limited bears interest at Bank of England base rate plus 1%, subject to a minimum interest rate of 1.5% and is credited annually to the Society. During the financial year a total of £2,505 (2018: £2,693) was received in respect of income from this loan (see note 4). There is no fixed maturity date for this loan and the Society holds no security on any assets of Mutual Vision Technologies Limited in respect of this amount.

A payment of £3,135 (2018: £3,044) is due from Mutual Vision Technologies Limited which is a related party of which Stephen Penlington is a Director (see note 8).

15. Intangible Fixed Assets

	Software £	Total £
Cost at 5 February 2018	805,451	805,451
Additions	148,267	148,267
At 4 February 2019	953,718	953,718
Accumulated amortisation at 5 February 2018	588,147	588,147
Charge in Year	124,590	124,590
At 4 February 2019	712,737	712,737
Net Book Value at 4 February 2019	240,981	240,981
Net Book Value at 5 February 2018	217,304	217,304

16. Tangible Fixed Assets

	Freehold Land & Buildings £	Equipment, Fixtures & Fittings £	Total £
Cost at 5 February 2018	1,754,467	711,705	2,466,172
Additions	-	37,864	37,864
Disposals	-	(4,896)	(4,896)
At 4 February 2019	1,754,467	744,673	2,499,140
Accumulated depreciation at 5 February 2018	234,677	584,216	818,893
Charge in Year	12,972	53,818	66,790
Disposals	-	(4,779)	(4,779)
At 4 February 2019	247,649	633,255	880,904
Net Book Value at 4 February 2019	1,506,818	111,418	1,618,236
Net Book Value at 5 February 2018	1,519,790	127,489	1,647,279

Freehold land and buildings are occupied by the Society for its own activities.

17. Other Assets

	2019 £	2018 £
Deferred taxation	23,456	55,302
Deferred Taxation		
Brought forward	55,302	115,496
Amount utilised during the year	(31,846)	(60,194)
	23,456	55,302
The amounts recognised for Deferred Taxation are set out below:		
Excess of capital allowances over depreciation	(53,267)	(49,225)
Other timing differences	76,723	104,527
	23,456	55,302

18. Prepayments and Accrued Income

	2019 £	2018 £
Prepayments and accrued income	389,225	402,563

19. Shares

	2019 £	2018 £
Shares comprise:		
Held by individuals	214,549,059	209,407,075
Shares are repayable from the year end date in the ordinary course of business as follows:		
Accrued interest	1,038,941	866,514
Repayable on demand	174,937,884	168,022,780
In not more than three months	20,983,187	22,839,214
In more than three months but not more than one year	5,425,821	7,144,554
In more than one year but not more than five years	12,163,226	10,534,013
	214,549,059	209,407,075

20. Amounts owed to Credit Institutions

	2019 £	2018 £
Repayable from the year end date in the ordinary course of business as follows:		
Accrued interest	3,835	3,533
In not more than three months	-	1,500,000
In more than three months but not more than one year	3,000,000	2,000,000
	3,003,835	3,503,533

21. Amounts owed to Other Customers

	2019 £	2018 £
Repayable from the year end date in the ordinary course of business as follows:		
Accrued interest	271	87
Repayable on demand	476,686	886,349
	476,957	886,436

22. Other Liabilities

	2019 £	2018 £
Amounts falling due within one year:		
Corporation Tax	184,666	245,604
Other creditors	65,925	67,486
	250,591	313,090

23. Accrual and Deferred Income

	2019 £	2018 £
Accruals	398,013	395,276

24. Financial Services Compensation Scheme Levy

The Society has a liability in respect of contributions to the Financial Services Compensation Scheme.

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts; a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In July 2018, the FSCS issued a final invoice in relation to the compensation levy triggered by the 2008 banking crisis and a notification that the levy would be repaid in full upon receipt of the final payment.

In September 2018, a claim was triggered against the FSCS following the failure of the Dial-A-Cab Credit Union, which was the largest deposit failure since the 2008 banking crisis. The FSCS issued invoices in January 2019 for this new £21m compensation levy, for which the Society holds a provision of £3,280 as at 4 February 2019. This is the only compensation levy for which the Society currently holds a provision.

25. Pension Costs

The Society contributes to a defined contribution staff pension scheme, the premiums for which are reviewed annually in consultation with independent pension advisors. The funds in the scheme are held separately from those of the Society. The scheme is operated on a contributory and non-contributory basis for employees. Contributions totalling £101,435 (2018: £113,402) were paid during the year.

26. Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgages and savings. The Society also uses wholesale financial instruments to invest its liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Society 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 Assets & Liabilities Committee which is charged with the responsibility for managing the Society's exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes may 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.

Derivatives

Derivatives will only be used by the Society in accordance with the Building Societies Act 1986. They are used solely to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation and are not used for trading or speculative purposes.

There were no derivatives held at or during the year end and prior year end.

Financial Instrument Classification

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 Society assigned to the categories by which they are recognised and measured:

At 4 February 2019	Financial assets measured at fair value through profit or loss £000	Financial assets that are debt instruments measured at amortised cost £000	Financial assets that are equity instruments measured at cost less impairment £000	Financial liabilities carried at amortised cost £000	Total £000
Assets					
Cash in hand	-	212	-	-	212
Treasury bills (note 10)	-	500	-	-	500
Loans and advances to credit institutions (note 11)	-	43,230	-	-	43,230
Loans and advances to customers (note 12)	-	191,766	-	-	191,766
Accrued Income (note 18)	-	2	-	-	2
Total Financial Assets	-	235,710	-	-	235,710
Liabilities					
Shares (note 19)	-	-	-	214,549	214,549
Amounts owed to credit institutions (note 20)	-	-	-	3,004	3,004
Amounts owed to other customers (note 21)	-	-	-	477	477
Other creditors (note 22)	-	-	-	66	66
Accruals (note 23)	-	-	-	398	398
Total Financial Liabilities	-	-	-	218,494	218,494

At 5 February 2018	Financial assets measured at fair value through profit or loss £000	Financial assets that are debt instruments measured at amortised cost £000	Financial assets that are equity instruments measured at cost less impairment £000	Financial liabilities carried at amortised cost £000	Total £000
Assets					
Cash in hand	-	270	-	-	270
Loans and advances to credit institutions (note 11)	-	52,060	-	-	52,060
Loans and advances to customers (note 12)	-	178,279	-	-	178,279
Accrued Income (note 18)	-	2	-	-	2
Total Financial Assets	-	230,611	-	-	230,611
Liabilities					
Shares (note 19)	-	-	-	209,407	209,407
Amounts owed to credit institutions (note 20)	-	-	-	3,504	3,504
Amounts owed to other customers (note 21)	-	-	-	886	886
Other creditors (note 22)	-	-	-	67	67
Accruals (note 23)	-	-	-	395	395
Total Financial Liabilities	-	-	-	214,259	214,259

Financial Risk Management

The Society's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and market risk (including interest rate risk).

Liquidity Risk

This is the risk that the Society is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Society's Financial Risk Management Policy (FRMP) ensures sufficient funds in liquid form are available at all times to cover cash flow imbalances and fluctuations in funding, to maintain public confidence in the solvency of the Society and enable it to meet its financial and regulatory obligations. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.

The liquidity position is managed daily by the treasury function. Liquidity risk is monitored by the Assets & Liabilities Committee which meets on a monthly basis to monitor the amount and composition of liquidity, the credit ratings of counterparties used and to ensure compliance with regulations. The FRMP is regularly reviewed by the Assets & Liabilities Committee and approved by the Board.

Liquidity by sector	2019 £000	2018 £000
Liquidity Resources		
Cash in hand and balances with the Bank of England	29,380	29,704
Central Government (UK Gilts and Treasury Bills)	500	-
Credit Institutions	14,062	22,626
Total liquidity exposures	43,942	52,330

Counterparty credit ratings are used to inform the Society's assessment of wholesale credit risk. The table below provides ratings details for the Society's treasury investment portfolio as at 4 February 2019 using the equivalent Fitch long-term deposit rating assessment.

Credit Rating

	2019 %	2018 %
AAA to AA-	68.00	56.76
A+ to A-	18.31	13.39
BBB- to BBB+	4.57	13.59
Not rated	9.12	16.26
Total	100.00	100.00

Maturity groupings, based on the remaining period at the year end date to the contractual maturity date, have been disclosed in the notes to the financial statements, see note 11.

Credit Risk

This is the risk that borrowers or counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due.

The Society manages the risk associated with mortgage borrowers by means of a Board approved Lending Policy which includes a full status check and affordability assessment of the borrower and a full valuation of the proposed security by a suitably qualified valuer. Mortgages are closely monitored following completion, with appropriate and timely action taken on those mortgages which fall into arrears. The Mortgage Credit Risk Committee reviews trends and indicators by monitoring product and sector limits, together with detailed analyses of arrears and loan-to-value ratios.

The Society's exposure to retail credit risk can be broken down as below and includes all mortgage offers as at 4 February 2019:

	2019 £000	2018 £000
Residential mortgages	191,900	179,155
Commercial lending	3,515	3,792
Total gross exposure	195,415	182,947

The Society monitors individual borrowers but also sets and applies limits to manage concentration risk.

The Society's geographical concentration of residential mortgage loans is as follows:

Region	2019 %	2018 %
North West	31.76	33.67
Outer South East	13.03	12.67
West Midlands	8.05	7.81
Greater London	7.01	7.33
South West	6.68	6.40
Yorkshire & Humberside	6.57	7.64
Outer Metropolitan Area	5.96	5.23
East Midlands	5.67	5.24
Wales	5.01	5.05
North	4.62	3.96
Scotland	3.91	3.00
East Anglia	1.73	2.00
Total percentage	100.00	100.00

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan made and the value of the underlying security, which is known as the loan-to-value percentage (LTV). In general, the lower the LTV percentage the greater the equity within the property, and the lower the losses expected to be realised in the event of default and subsequent repossession.

The Society sets strict LTV criteria for new loans, which must be supported by an external valuation of the security. The LTV profile of the Society's book is monitored closely against the limits set by the Mortgage Credit Risk Committee.

The indexed LTV analysis of the Society's loan portfolio is as follows:

	2019 %	2018 %
≤80% LTV	85.79	86.15
>80-85% LTV	5.58	4.53
>85-90% LTV	5.83	6.70
>90% LTV	2.80	2.62
Total percentage	100.00	100.00

The Society's overall weighted average LTV ratio is 58.91% (2018: 59.18%).

The table below provides further information on the Society's loans and advances to customers by payment due status as at 4 February 2019:

	2019 £000	2019 %	2018 £000	2018 %
Not Impaired				
Neither past due or impaired	185,776	96.80	173,683	97.20
Past due up to 2 months but not impaired	4,031	2.10	3,580	2.00
Impaired				
Past due 2 to 3 months	852	0.44	486	0.27
Past due 3 to 12 months	936	0.49	700	0.39
Past due over 12 months	335	0.17	250	0.14
Possessions	-	-	-	-
Total loans and advances to customers	191,930	100.00	178,699	100.00

Collateral Held

The Society holds collateral in the form of property, against impaired loans and advances to customers as follows:

	2019 £000	2018 £000
Property against impaired loans and advances to customers	4,393	3,754

Forbearance

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include reduced monthly payments, an arrangement to clear outstanding arrears, alternative repayment types, capitalisation of arrears or extension of the mortgage term. The following table analyses residential mortgage borrowers with renegotiated terms:

	2019 Number	2018 Number
Arrangements	13	9
Interest-Only	11	16
Extension of term	6	8
Capitalisation	11	6
Total	41	39

Impairment provisions of £58,193 (2018: £110,261) are held in respect of these mortgages, see note 1.

Interest Rate Risk

This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates. The Society is susceptible to interest rate risk due to the differing interest rate characteristics and maturity profile of its mortgage and savings products. The risk, which includes basis risk, is managed using conservative Board approved limits, offsetting assets and liabilities and the use of financial derivative instruments where appropriate in accordance with the Financial Risk Management Policy. This is regularly reviewed by the Assets & Liabilities Committee and approved by the Board.

The table below shows the allocation of assets and liabilities, at the year end date, to time bands by reference to the earlier of the next interest repricing date and the maturity date. The interest rate sensitivity gap represents the asset/liability mismatch and quantifies the net value of assets or liabilities which will give rise to earnings variations when interest rates change.

The interest rate sensitivity of the Society at 4 February 2019 was:

	≤ 3 Months	> 3 Months - ≤ 6 Months	> 6 Months - ≤ 1 Year	> 1 Year - ≤ 5 Years	> 5 Years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	43,431	250	-	-	-	261	43,942
Loans and advances to customers	174,414	372	2,616	14,529	-	(165)	191,766
Investments in associates	149	-	-	-	-	5	154
Intangible fixed assets	-	-	-	-	-	241	241
Tangible fixed assets	-	-	-	-	-	1,618	1,618
Other assets	-	-	-	-	-	23	23
Prepayments and accrued income	-	-	-	-	-	389	389
Total Assets	217,994	622	2,616	14,529	-	2,372	238,133
Liabilities							
Shares	194,343	360	2,933	15,874	-	1,039	214,549
Amounts owed to credit institutions	-	2,500	500	-	-	4	3,004
Amounts owed to other customers	477	-	-	-	-	-	477
Other liabilities	-	-	-	-	-	250	250
Accruals and deferred income	-	-	-	-	-	401	401
General Reserve	-	-	-	-	-	19,452	19,452
Total Liabilities	194,820	2,860	3,433	15,874	-	21,146	238,133
Net mismatches	23,174	(2,238)	(817)	(1,345)	-	(18,774)	-
Interest rate sensitivity gap	23,174	(2,238)	(817)	(1,345)	-	(18,774)	-
Cumulative sensitivity gap	23,174	20,936	20,119	18,774	18,774	-	-
Sensitivity to General Reserves as a result of:							
+2% interest rate movement	(59)	16	20	99	-	-	76
-2% interest rate movement	59	(17)	(20)	(107)	-	-	(85)

The interest rate sensitivity of the Society at 5 February 2018 was:

	≤ 3 Months	> 3 Months - ≤ 6 Months	> 6 Months - ≤ 1 Year	> 1 Year - ≤ 5 Years	> 5 Years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Assets							
Liquid assets	42,019	10,000	-	-	-	311	52,330
Loans and advances to customers	160,254	2,745	4,684	11,016	-	(419)	178,280
Investments in associates	179	-	-	-	-	5	184
Intangible fixed assets	-	-	-	-	-	217	217
Tangible fixed assets	-	-	-	-	-	1,647	1,647
Other assets	-	-	-	-	-	55	55
Prepayments and accrued income	-	-	-	-	-	403	403
Total Assets	202,452	12,745	4,684	11,016	-	2,219	233,116
Liabilities							
Shares	190,861	1,713	5,378	10,588	-	867	209,407
Amounts owed to credit institutions	1,500	2,000	-	-	-	4	3,504
Amounts owed to other customers	886	-	-	-	-	-	886
Other liabilities	-	-	-	-	-	313	313
Accruals and deferred income	-	-	-	-	-	429	429
General Reserve	-	-	-	-	-	18,577	18,577
Total Liabilities	193,247	3,713	5,378	10,588	-	20,190	233,116
Net mismatches	9,205	9,032	(694)	428	-	(17,971)	-
Interest rate sensitivity gap	9,205	9,032	(694)	428	-	(17,971)	-
Cumulative sensitivity gap	9,205	18,237	17,543	17,971	17,971	-	-
Sensitivity to General Reserves as a result of:							
+2% interest rate movement	(30)	(48)	9	20	-	-	(49)
-2% interest rate movement	30	49	(9)	(24)	-	-	46

The maturity analysis of the financial liabilities of the Society at 4 February 2019 was:

	Undefined	≤ 3 Months	> 3 Months - ≤ 6 Months	> 6 Months - ≤ 1 Year	> 1 Year - ≤ 5 Years	> 5 Years	Total
	£000	£000	£000	£000	£000	£000	£000
Wholesale liabilities from UK credit institutions	-	-	2,500	500	-	-	3,000
SME Deposits	477	-	-	-	-	-	477
Retail Deposits	172,830	15,611	5,723	3,765	13,257	2,324	213,510
Total	173,307	15,611	8,223	4,265	13,257	2,324	216,987

The maturity analysis of the financial liabilities of the Society at 5 February 2018 was:

	Undefined	≤ 3 Months	> 3 Months - ≤ 6 Months	> 6 Months - ≤ 1 Year	> 1 Year - ≤ 5 Years	> 5 Years	Total
	£000	£000	£000	£000	£000	£000	£000
Wholesale liabilities from UK credit institutions	-	1,500	2,000	-	-	-	3,500
SME Deposits	886	-	_	-	-	-	886
Retail Deposits	156,444	19,424	2,838	6,590	12,296	10,949	208,541
Total	157,331	20,924	4,838	6,590	12,296	10,949	212,927

Capital Management

The Board's objectives when managing capital is to safeguard the Society's ability to continue as a going concern in order to provide long-term benefits for Members and other stakeholders. Regulatory capital consists of the Society's general reserves, which are profits of the Society accumulated over the last 160 years. The Society manages its capital requirements through the annual Internal Capital Adequacy Assessment Process (ICAAP). This is carried out in conjunction with the Prudential Regulation Authority (PRA). The ICAAP is closely monitored by the Board and the Board receive regular updates on the amount of capital held and the amount of headroom the Society has over its required level of capital. The required level of capital is set by the PRA through the Society's Internal Capital Guidance (ICG). This allows the Board to ensure that the quantity and quality of capital held is both sufficient and appropriate to mitigate the risks the Society faces and to safeguard Members' interests.

There were no breaches of capital requirements during the year and there have been no material changes in the Society's management of capital during the year. The Society is required to set out its capital position, risk exposures and risk assessment process in its Pillar 3 disclosure document. This is available on the Society's website www.chorleybs.co.uk or may be obtained by writing to the Secretary at the Society's Head Office.

27. Country-By-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

The Society has assets in excess of £238 million.

As a mutual organisation the Society's primary focus is its Members and it aims to provide mortgage and savings products supported by excellent customer service.

The financial statements include the audited results of the Society. The principal activities are detailed in the Annual Report and Accounts. The Society was incorporated in the United Kingdom.

For the year ended 4 February 2019:

- Net interest income was £4.5m (2018: £4.9m), profit before tax was £1.1m (2018: £1.5m) all of which were arising from UK-based activity. Net interest income is calculated as interest receivable and similar income less interest payable and similar charges.
- The average number of full-time equivalent employees was 50 (2018: 50) all of which were employed in the UK.
- The Society paid £0.2m of corporation tax in the year (2018: £0.2m) all within the UK tax jurisdiction.
- The Chorley and District Building Society has not received any public subsidies during the year or in the previous year.

Annual Business Statement

For the year ended 4 February 2019

1. Statutory Percentages

	4 February 2019	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the "lending limit")	0.78%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the "funding limit")	1.60%	50%

The above percentages have been 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 Society as shown in the Statement of Financial Position, plus impairment losses 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 losses.

2. Other Percentages

	4 February 2019	5 February 2018
As a percentage of shares and borrowings:		
Gross Capital	8.92%	8.69%
Free Capital	8.14%	7.87%
Liquid Assets	20.15%	24.48%
As a percentage of mean total assets:		
Profit after taxation	0.37%	0.55%
Management Expenses	1.48%	1.52%

The above percentages have been prepared from the Society's accounts:

- "Shares and borrowings" represent the total of shares, amounts owed to credit institutions and amounts owed to other customers
- "Gross capital" represents the general reserve
- "Free capital" represents the aggregate of gross capital and collective impairment losses less intangible and tangible fixed assets
- "Mean total assets" represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- "Liquid assets" represent the total of cash in hand, loans and advances to credit institutions, debt securities and treasury bills
- "Management expenses" represent the aggregate of administrative expenses and depreciation.

Directors at 4 February 2019

Name	Date of Birth	Date Appointed	Business Occupation	Other Directorships
David Bagley	09.02.56	29.07.16	Chartered Accountant	Finance Yorkshire Ltd Gradcore Ltd GDBA Pension Fund Ltd Guide Dogs for the Blind Association Leeds Arts University MyPeak Performance Ltd Progressive Care Limited University of Sheffield
Kevin Bernbaum	12.12.62	25.06.14	Treasury Consultant & Company Director	Educo Ltd Peartree Advisors Ltd Rangemountain Ltd
Andrew Horsley	18.12.60	16.12.11	Company Secretary & Head of Compliance	None
Erfana Mahmood	26.08.70	26.10.11	Solicitor	South West Yorkshire Partnership NHS Foundation Trust Plexus and Omega Housing
John Sandford	18.03.55	25.06.14	Chartered Accountant	Johnnie Johnson Housing Trust Epworth Investment Management Ltd Cheadle Golf Club (Trading) Ltd Cheadle Golf Club (Catering) Ltd Central Finance Board of the Methodist Church Edward Mayes Trust Mr. Lum's Almshouses McKellens Outsourcing LLP
Stephen Penlington	18.11.58	20.05.06	Chief Executive	Magenta Living Mutual Vision Technologies Limited
Angela Kos	24.07.78	01.04.13	Finance Director	None
Kimberley Roby	07.04.82	01.09.17	Customer Services Director	None

None of the Non-Executive Directors has a service contract.

The Chief Executive is employed on a contract of employment that may be terminated by either party giving twelve months' notice.

The Finance Director and Customer Services Director are employed on a contract of employment that may be terminated by either party giving six months' notice.

Documents may be served on the above named Directors c/o the Society's Auditor, KPMG LLP, 1 St Peter's Square, Manchester M2 3AE

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