Report & Accounts 2016

for the year ended 31 August 2016

THE SUNDAY TIMES
100
BEST SMALL COMPANIES TO WORK FOR
2016

THE HANLEY ECONOMIC Building Society

www.thehanley.co.uk

Members of The Hanley team celebrate our achievement of The Sunday Times 100 Best Small Companies To Work For award 2016 - the second year running the Society has received the award.

Annual Report & Accounts Year to 31 August 2016

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Member of the Building Societies Association

Shares and deposits in this Society are trustee investments

Established 1854

Registered Head Office **Granville House, Festival Park, Hanley, Stoke-on-Trent, ST1 5TB**

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Email: customerservices@thehanley.co.uk

Register No. **248B**

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Chairman's Statement

The 2015-16 financial year was one of continued prudent asset growth and satisfactory financial results for The Hanley despite considerable upheaval in the domestic economic and political landscape following the June 2016 Referendum result.

The period pre-June 23rd 2016 was characterised by a continuation of a Bank Base Rate of 0.50%, low inflation, steady Gross Domestic Product (GDP) figures and low unemployment. The Referendum vote to leave the European Union has led to a period of relative uncertainty, including upward pressure on inflation, a decrease in the value of sterling against other major currencies, and importantly the decision taken by the Bank of England to reduce Bank Base Rate to 0.25%. This move and other stimulus measures, including a further package of Quantitative Easing and the Term Funding Scheme, have all been introduced to help thwart the potential of a marked downturn in the UK economy. These actions have inevitably had consequences for your Society, including a decrease in earnings on liquidity holdings, lower mortgage rates and, regrettably, reductions in savings rates offered to members. The outlook for the next 12 months remains unpredictable, but your Society is well prepared for the economic uncertainties that lie ahead, continuing to build upon a sound financial base, controlled expenses and achieving further risk-averse sustainable asset growth.

Of equal note to the financial performance is the range of non-financial indicators. Since the last year-end the Society has welcomed over 1,900 new members to The Hanley. I am also delighted to report that The Hanley has again featured in The Sunday Times 'Best 100 Small Companies To Work For' list. Support for the local Ormiston Horizon Academy continues to benefit the local community as does sponsoring the Potters 'Arf Marathon for the ninth consecutive year. These activities, along with a contribution of £37,000 to the Douglas Macmillan Hospice (DMH) as a result of balances held in our 500 DMH Saver accounts, show that modern mutuality is thriving and is an effective business model to compete with commercial firms whose principal aim is to promote returns only to shareholders.

The Hanley's £37,000 support for the Douglas Macmillan Hospice included staff donations (above), and was recognised with the Platinum Award 2016 presented by Hospice Chairman Ted Turner (left) to Business Development Manager Rob Hassall.

Business Development Manager Rob Hassall (right) receives the Moneyfacts Highly Commended award in the Best First Time Buyer Mortgage Provider category from comedian Russell Kane.

Human Resources Manager Cris Hammond (left) and Customer Services Manager Nicola Wilson with the Employer of the Year award presented at Newcastle under Lyme College Celebration Awards 2016.

Chairman's Statement *continued*

This last year has also seen the departure of two valued Board colleagues, and the arrival of a new Non-Executive Director. First, our Chief Executive, David Webster, who after 14 years at The Hanley has moved on to become Chief Executive of the local Douglas Macmillan Hospice, a cause which the Society has supported in so many ways across many years. David has, with his unique leadership style, guided The Hanley team through a transformational period, including embedding a culture of service excellence through the values which permeate the organisation from Board colleagues to our apprentices, modernising and opening new branch facilities and steering the Society through the economic crisis in the period post 2008. Second, John Wood has retired after serving on the Board for 8 years. John has fulfilled a variety of Committee roles and has been a first class ambassador for The Hanley in the wider community. The Board will miss their wise counsel and we wish them both every success in the future.

> "Your Society is well prepared for the economic uncertainties that lie ahead, continuing to build on a sound financial base."

The Board has been joined by a new colleague, Simon Woodings, a former Managing Partner at a local law firm, Beswicks. Simon is looking forward to meeting members in the coming months and at the Annual General Meeting in December.

No report from the Board would be complete without conveying our appreciation of the contribution of The Hanley's team members and business partners. They have worked hard to ensure that the service provided is personal and professional, features recognised by many of the awards and accolades the Society has received during the year.

Finally, and arguably most important of all, sincere thanks must go to you the members of the Society who have invested, borrowed, taken advice and shown such loyal support – we try never to forget it is you we are in business for and it is you our long term strategy is framed around.

P. R. Dearing
Chairman
21 October 2016

Sports sponsorships have included support for young athlete Jack Pickin (right) and the Leek Hockey Club U16 boys team (below).

The Hanley sponsored the Potters 'Arf Marathon for the ninth year (right) and played an active part in organising the event (above).

Board of Directors

Philip Dearing, age 66, joined the Board as a Non-Executive Director in October 2009 and was appointed Chairman in October 2014. Philip has enjoyed a career in the retail financial services sector, and in Building Societies particularly. He is also a Non-Executive Director of a large regional social housing provider.

Fionnuala Earley, age 52, joined the Board as a Non-Executive Director on 1 September 2013. Fionnuala Chairs the Board Risk Committee and is a member of the Audit & Compliance Committee.

Fionnuala has spent her career as a specialist in housing market economics. She has experience of the industry from many perspectives having worked in both the mutual and non-mutual mortgage lending sector and is currently Residential Research Director at Hamptons International.

Andrew Macdonald, age 61, was appointed to the Board as a Non-Executive Director in September 2014. He took over the Chair of the Audit & Compliance Committee in November 2014, and is a member of the Assets & Liabilities Committee.

He began his career in branch banking as a clerk in Barclays Bank in the early 1970s and became a specialist in Treasury and Asset & Liability Risk Management. He was the Group Treasurer of the Skipton Building Society and Group Head of Asset & Liability Management of the Nationwide Building Society. He was made a Fellow of the Association of Corporate Treasurers in acknowledgement of his contribution to financial risk management in the Building Society sector.

Veronica Oak, age 54, joined the Board as a Non-Executive Director in March 2015 and Chairs the Remuneration Committee.

Veronica's career has been within the financial services industry having previously been Marketing Director for a life company and a reinsurer, and spent over 30 years as an independent marketing and business development consultant. She has been a Non-Executive Director for another mutual, Family Investments and is currently on the Board of Chesnara plc and its subsidiary, Countrywide Assured and two companies within the Sanlam Group in the UK. She recently rejoined the board of a trade body which serves the interests of life assurance and investment firms.

Simon Woodings, age 49, joined the Board as a Non-Executive Director in April 2016 and is a member of the Assets & Liabilities Committee.

Simon spent his career in a Stoke-on-Trent based law firm as a corporate/commercial lawyer becoming senior partner until joining his family's fire protection engineering business in October 2015. Simon remains a consultant to his previous law firm Beswicks Legal. Simon lives near Stone and is married with two children.

Steven Jones, age 53, was appointed Finance Director in May 2004, Deputy Chief Executive in June 2012 and Group Secretary in 2016. He is Chair of the Assets & Liabilities Committee and attends the Audit & Compliance Committee as well as the Treasury, Credit and Product Development Management Committees.

Outside of the Society, Steven is an independent Board Member and Chair of Audit at Wulvern Housing Ltd and a Governor of Newcastle-under-Lyme College.

Steven, who lives locally, is married and has two daughters. He is a Fellow of the Institute of Chartered Accountants with a strong background in the financial services sector and is committed to The Hanley's continued success as a mutual building society within Staffordshire.

Directors' Report and Strategic Business Review

The Directors are pleased to present their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 August 2016.

Business objectives and activities

Our Mission Statement is "To be the chosen provider of savings and mortgages within our heartland, built on trusted values and exceptional service".

We value –
- the support of our members,
- the commitment, loyalty and continued development of our staff, and
- the diversity that mutuality brings to the financial services market.

We are dedicated to –
- promoting savings and home ownership,
- outstanding customer service,
- fairness in all that we do, and
- making a positive impact in our local community.

The Group's principal business objectives are the provision of mortgage finance for the purchase and improvement of residential property, savings products for private individuals and local businesses, related services and other financial services.

Accounting standards changes

The Society's annual accounts have been prepared for the first time under a new accounting framework. The Board has chosen to adopt FRS102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) and IAS39 (Financial Instruments: Recognition and Measurement) with an effective transition date of 1 September 2014. The 2015 comparatives have been adjusted accordingly and these new standards have also resulted in a number of new disclosures. The principal impact of the transition is a £7.5m increase in individually identified mortgage impairment provisions, and a £1.4m increase in deferred tax assets. Further details are included in Note 31.

Review of the year and key performance indicators

The Directors are satisfied with the Group's performance, summarised as one of sustained growth in both savings and mortgages, together with a positive contribution to the Group's capital base.

Key Performance Indicators

	2016	2015	2014*	2013*
Total assets	£378m	£368m	£361m	£337m
Mortgage lending	£65m	£56m	£65m	£47m
Growth in mortgage assets	4.17%	3.36%	9.41%	6.18%
Savings balances	£311m	£289m	£281m	£259m
Management expenses as % of total assets	1.10%	1.06%	1.09%	1.03%
Profit on ordinary activities before tax	£1.1m	£1.0m	£0.9m	£0.3m
Net profit	£0.7m	£0.8m	£0.7m	£0.2m
Profit as a % of total assets	0.19%	0.22%	0.19%	0.06%
Gross capital	7.12%	7.10%	8.91%	9.37%
Free capital	6.35%	6.26%	7.98%	8.33%

*Stated under UK GAAP and have not been restated on transition to FRS102.

Total assets

The total assets of the Group at the end of the financial year amounted to £378.2m (2015: £368.3m), an increase of £9.9m or 2.67% on the previous year. This has been achieved as a result of significant inflows of retail savings used to fund mortgage lending during the year.

Liquid assets

By maintaining sufficient liquidity the Society can ensure that it meets its liabilities as they fall due. The liquid assets comprising cash, bank balances and authorised investments amounted to £82.3m (2015: £83.7m), representing 23.39% (2015: 24.44%) of total shares and deposit liabilities.

Total liquidity includes £35.6m deposited with the Bank of England’s Reserve Account and £2m in respect of Treasury Bills. All of these investments are highly liquid and qualify towards the Society’s liquidity buffer which was significantly in excess of its minimum regulatory requirement.

Mortgage balances

During 2016 we continued to grow our mortgage lending with £65.5m of advances. Overall total mortgage balances increased by £11.6m, a 4.17% increase on 2015. Redemptions due during the year were £42.2m (2015: £36.5m), including £0.6m (2015: £0.8m) within our subsidiary company Hanley Mortgage Services Limited.

Shares

Share balances at 31 August 2016 were £311.0m (2015: £288.7m), an increase of £22.3m (7.72%) on the previous year. This strengthening of our savings base particularly in a period of low interests rates, demonstrates our competitive pricing in the market both for new and existing members.

Group net profit and reserves

An appropriate level of profit is required to re-invest in the business and to maintain the capital required to satisfy regulatory requirements and to protect investors. Profit after tax and total comprehensive income for the year amounted to £0.7m (2015: £0.8m) and represents a ratio of 0.19% of mean total assets. The profit after taxation has been added to the General Reserve which after adjustments for the impact of FRS102 stands at £25.0m (2015: £24.3m).

Capital

Gross capital is defined as general reserves as shown in the Group’s balance sheet, and free capital as the aggregate of gross capital and general loss provisions less tangible fixed assets. The Directors ensure that a satisfactory level of capital is maintained to protect the Society against adverse market movements or changes in economic conditions.

At the year end the ratio of gross capital as a percentage of total share and deposit liabilities was 7.12% (2015: 7.10%) and free capital was 6.35% (2015: 6.26%). The Core Tier 1 ratio (unaudited) stood at 15.47% (2015: 15.11%) and the Leverage ratio (unaudited) stood at 6.30% (2015: 5.92%). Tier 1 Capital was £23.9m (2015: £22.9m) and Tier 2 Capital £0.2m (2015: £0.2m), providing total Capital resources of £24.1m (2015: £23.1m.).

The Board complies with the Basel IV Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital strength through an Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP the Board is satisfied that the Society holds a level of capital more than sufficient to satisfy the CRD’s Pillar 1 minimum capital requirements and to cover the ratios identified in Pillar 2. The Pillar 3 disclosures required by the CRD can be found on the Society’s website, www.thehanley.co.uk.

Management expenses ratio

The ratio expresses administrative expenses and depreciation as a percentage of average total assets. The Society continues to review management expenses and endeavours to contain expenditure, but the increasing cost of regulation, together with our investment in both IT and risk infrastructures, and the additional costs of the Society’s transition to FRS102, has resulted in a modest increase in the overall ratio to 1.10% (2015: 1.06%).

Mortgage arrears and impaired cases

(a) At 31 August 2016 there were no cases (2015: 1) in which the borrowers were 12 months or more in arrears. In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty, for example, agreeing a temporary transfer to interest only payments in order to reduce the borrowers’ financial pressures. In each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. As at 31 August 2016, there were 5 cases (2015: 10) under forbearance measures with total balances of £0.28m (2015: £0.89m) and arrears totalling £3,944 (2015: £6,859). The Board assesses the impact of forbearance measures regularly and considers that if there is a possibility of loss, a provision is made in accordance with the Society’s policies.

(b) Included in loans secured on residential property are a total of 13 cases (2015: 15), with a balance outstanding of £13.5m (2015: £13.9m), all of which are either in possession or under management by a Law of Property Act Receiver. Although these cases have experienced previous financial difficulty, each has now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream which exceeds current funding costs. As at 31 August 2016 total specific impairment provisions of £3.5m (2015: £3.7m) are held against these exposures.

c) In respect of the portfolio of residential development loans at 31 August 2016, 3 properties (2015: 3) were either in possession or under management by a Law of Property Act Receiver, with a capital balance outstanding of £4.9m (2015: £4.9m). As at 31 August 2016 total specific impairment provisions of £4.1m (2015: £4.3m) are held against these exposures.

Business outlook

The Group's business strategy remains that of balancing the needs of savers and borrowers, retaining our focus on capital strength and continuing to invest in infrastructure, products and member services. As we enter our 2017 financial year the Board is mindful of the challenges faced, in particular UK economic uncertainty, compressed interest rates and margin erosion, increased regulatory compliance and ever competitive markets for both retail savings and mortgages. Against this backdrop the Board expects a conservative level of growth for the year ahead in mortgages, savings, capital and Society membership.

Directors Indemnity

All Directors have access to independent professional advice if required. Directors and Officers insurance has been put in place by the Society.

Creditor payment policy

The Group's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit once the supplier has discharged their contractual obligations.

Charitable and political donations

During the year The Hanley made donations of £37,000 (2015: £22,983) to local charities. No contributions were made for political purposes. In addition, the Society sponsors, and its staff commit their time to, a range of local charitable and community causes.

Non-financial indicators

Customer surveys in 2016 showed that 93% of new savers and 90% of new mortgage customers would recommend The Hanley. Further, 99% of staff responded to a satisfaction survey, with a positive increase in all areas taking the Society into 3 star "extraordinary" Best Companies category.

Executives and staff

The Society maintains an open recruitment and staff development policy, affording equal opportunities regardless of age, gender, race, religion or disability. Staff communication and training continue to remain priorities for the Society.

The Board wish to record their thanks to the staff for the vital contribution they continue to make. Adapting to new methods of operating, particularly using new systems and software is not always easy, but doing so is essential in the rapidly changing financial services marketplace in which the Society competes. The support, co-operation and flexibility of the staff is essential to the ongoing success of The Hanley.

Principal risks and uncertainties

Building societies operate within a highly competitive financial services market, consequently many of the risks arise simply from competing within such an environment, the most significant of which are detailed below.

Credit risk

Credit risk is the risk of a customer or counterparty not meeting their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of a customer to make repayments on their mortgage, and of treasury counterparties to repay loan commitments.

The risk of treasury counterparty default is managed through Board approved Liquidity, Funding and Structural Risk policies. Counterparty credit quality and exposure limits are monitored by the Assets & Liabilities Committee (ALCO) who make recommendations to the Board on changes in any of its related policies.

Mortgage credit risk is managed through the Society's underwriting process which seeks to ensure that customers can afford to repay their debt. All mortgage applications are rigorously assessed with reference to the Society's Lending policy, changes to policy are approved by the Board and the approval of mortgage applications is mandated. All applications are supported by an independent valuation sourced from the Society's authorised panel of valuers. In the unfortunate event of customers experiencing financial difficulties the Society is highly proactive in providing support which can include working with them to clear arrears, making arrangements, or forbearance.

In respect of residential development loans, the Society additionally has potential exposure in the value of new build properties and development land. This is mitigated by taking a longer term approach to the management of its loans to this sector, which enables the Society to take advantage of any positive cyclical movements in underlying property values. This long term approach similarly applies to the Buy To Let exposures that are either in possession or subject to the Law of Property Act.

However, determining the appropriateness of impairment losses for such long term approaches is judgemental and requires the Society to make a number of assumptions. The preparation of the Society's financial statements in accordance with UK GAAP requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported value of such assets. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This is further explained in Note 1 to the accounts.

Liquidity risk

Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due. The Society's Liquidity Policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to maintain full public confidence in the solvency of the Society and to meet its financial obligations.

The Society manages this risk through continuous forecasting of cash flow requirements and assessment of retail and wholesale funding risk. The required amount, quality and type of liquid assets required to ensure obligations can be met at all times is maintained in accordance with the Liquidity Policy. Regular stress tests are performed to ensure the Society can meet its obligations in both normal and stressed circumstances. The management of the Society's liquidity risk is overseen by the Assets & Liabilities Committee.

Interest rate risk

Interest rate risk represents the Society's exposure to movements in interest rates and is managed on a continuous basis, within limits set by the Board, using interest rate swap and cap products. All transactions in such instruments are undertaken to manage the risks arising from underlying business activities. No transactions of a speculative nature are undertaken. The Society has adopted hedge accounting as a part of its transition to FRS102 to reduce volatility in the Income Statement.

The interest rate sensitivity exposure of the Group is set out in Note 30 to the Annual Accounts.

Conduct risk

The risk is that the Society does not treat its customers fairly and delivers inappropriate consumer outcomes. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority's Principle 6, namely to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture and working practices.

Operational risk

Operational risk is the risk of loss through failed or inadequate systems, human error or other external factors. The Society mitigates this risk through having a robust and effective internal control framework, including internal audit and the Society's compliance function, which are overseen by the Board Risk Committee and the Audit & Compliance Committee.

Concentration risk

The risk of loss due to a large exposure or significant exposures to groups of counterparties who could be affected by common factors for example, geographic location. The Board reviews geographic concentration of mortgage assets and the maximum value of exposures to borrowers and treasury counterparties are monitored by the Assets & Liabilities Committee.

Regulatory and legal risk

Regulatory and legal risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. The Board monitors these risks and their potential impact through the Board Risk and Audit & Compliance Committees. In light of the increasing regulatory demands faced by the sector the Board is alert to the potential increase posed by regulatory risk.

Business risk

Business risk means any risk arising from changes in business or economic conditions, including the risk that the Society may not be able to carry out its business plan or implement its required strategy. Business risk is managed through regular review and development of the business plan, management oversight and an embedded corporate governance framework.

Financial risk management

The Society has a formal structure for managing financial risk which is closely monitored and controlled by the Board, supported by the Audit & Compliance Committee and the Assets & Liabilities Committee. The Society uses financial instruments for risk management purposes, details of which are set out in Note 30.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Society's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Society's auditors are aware of that information.

Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Society will be proposed at the Annual General Meeting.

Directors

The following persons were Directors of the Society during the year and up to the date of signing the Annual Accounts:

Non-Executive Directors

P. R. Dearing BEd (Hons), FCIB (Chairman)
F. B. Earley BSc, MSc
A. S. Macdonald
V. Oak
J. H. Wood QPM, LLB (retired 30.4.2016)
S. Woodings (appointed 1.4.2016)

Executive Directors

D. Webster BA (Hons), DUniv (Chief Executive & Secretary) (Resigned 31.8.2016)
S. Jones BSc (Hons), FCA, MBA (Deputy Chief Executive & Finance Director)

Mr P. R. Dearing, Miss F. B. Earley retire by rotation in accordance with the Society's rule 26(1). Mr S. Woodings retires in accordance with rule 25(4). Being eligible, they offer themselves for (re-)election.

Post balance sheet events

The Directors do not consider that there have been any events since the year end that have a material effect on the financial position of the Group or Society.

On behalf of the Board
P. R. Dearing
Chairman
21 October 2016

Directors’ Remuneration Report

Directors’ Remuneration

The purpose of this report is to inform members of The Hanley about our policy on the remuneration of Executive and Non-Executive Directors. This Policy is reviewed annually by the Board.

The Remuneration Committee

The Committee is responsible for the remuneration policy for all Directors of the Society and it makes recommendations to the Board regarding remuneration and contractual arrangements. The Committee meets at least twice a year and reviews supporting evidence, including external professional advice if appropriate, on comparative remuneration packages.

Policy for Executive Directors

The Board’s policy is to set remuneration levels which will attract and retain high calibre Executive Directors, and to encourage excellent performance through rewards directly linked to the achievement of The Hanley’s strategic objectives. The main components of the Executive Directors’ remuneration are:

a) ***Basic Salary*** – which takes into account the role and position of individuals including professional experience, responsibilities, job complexity and market conditions. Basic salary is reviewed annually.

The Society does not currently operate any form of bonus or incentive scheme.

b) ***Pensions*** – which involves The Hanley contributing to the personal pension arrangements of its Executive Directors.

The Society does not have a Defined Benefit/Final Salary pension scheme.

c) ***Other Benefits*** – notably the provision of a company car to each Executive Director (or an equivalent allowance), private medical insurance, permanent health insurance and a concessionary mortgage rate on loans up to £40,000. Such benefits are reviewed annually by the Remuneration Committee.

Executive Directors have contractual notice periods of up to one year and so any termination payment would not exceed 12 months’ salary and accrued benefits. The performances of both the Chief Executive and the Deputy Chief Executive, Finance Director & Group Secretary are reviewed on an annual basis by the Remuneration Committee.

Policy for Non-Executive Directors

The remuneration of all Non-Executive Directors is reviewed on an annual basis using external data for other comparable building societies, and by a performance review process undertaken by the Society’s Board Chairman. The Chairman’s performance review is conducted by the Senior Independent Director and his remuneration is reviewed and set by the Remuneration Committee. There are no bonus schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do not have employment contracts but serve service contracts following election by the Society’s membership.

In determining remuneration the Committee considers the guidance provided by the Corporate Governance Code and applies the FCA Remuneration Code.

Directors' Remuneration Report *continued*

Directors' Remuneration	Group and Society 2016 £000	*2015 £000*
Directors' emoluments:		
For services as a Non-Executive Director	134	*115*
For executive services	353	*340*
	487	*455*

Emoluments of the Society's Directors are listed below.

Non-Executive Directors:	Fees £000	*Fees £000*
P. R. Dearing (Chairman)	43	*33*
F. B. Earley	21	*20*
E. V. Jenner (to 31.10.2014)	–	*6*
A. S. Macdonald	27	*26*
V. Oak	21	*10*
J. H. Wood (to 30.4.2016)	13	*20*
S. Woodings (from 1.4.2016)	9	*–*
	134	*115*

Executive Directors:	Salary	Benefits	Sub-total	Pension Contribution	Total
2016	£000	£000	£000	£000	£000
D. Webster (to 31.8.2016)	189	11	200	28	228
S. Jones	105	7	112	13	125
	294	18	312	41	353
2015	£000	£000	£000	£000	£000
D. Webster	184	15	199	28	227
S. Jones	95	6	101	12	113
	279	21	300	40	340

V. Oak
Chair of the Remuneration Committee
21 October 2016

Corporate Governance

Corporate Governance

The Society is committed to best practice in Corporate Governance. Our approach is based on the principles and provisions of the UK Corporate Governance Code, including the revisions effective from 1 October 2014, published by the Financial Reporting Council (FRC) which applies to listed companies. Whilst the Society is not a listed company the Board has regard to the recommendations of the Code and follows those elements that are considered to be appropriate and proportionate to The Hanley. This report sets out how the Group operates and conducts its business in a prudent and efficient manner, thereby maintaining high standards of governance for the benefit of its members, both current and future.

The Directors are satisfied that the Report and Accounts, taken as a whole, are fair, balanced and understandable, and provides the information necessary for members to assess the Society's performance, business model and strategy. The Audit & Compliance Committee reviewed and challenged the assumptions, estimates and sensitivities to key accounting estimates and are satisfied that the results are appropriately presented.

The Board

The Society's Rules require that the Board should comprise between five and nine Directors. The Board currently comprises a Chairman, four Non-Executive Directors and two Executive Directors. The Board considers that its current composition is appropriate for the proper direction of the Society's business activities. The Board considers that all its Non-Executive Directors are independent and carry out their duties with complete objectivity. Andrew Macdonald is the Senior Independent Director available to members to address any concerns or issues they may wish to raise. However, all Directors are happy to make themselves available to members for such purposes.

There is a formal, rigorous and transparent procedure for the appointment of new Directors. All Non-Executive vacancies are advertised via the Society's website and the local media, using professional external search and recruitment consultants when required. The Nominations Committee makes appointments having considered the balance of skills, experience, availability and core competencies required, having regard for the benefits of diversity so as to offer a depth and breadth of insight, perspective and experience on the Board. New Directors receive formal induction training and all Directors are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry and the regulatory framework within which the Society operates. All Directors must meet the test of fitness and propriety as laid down by the Regulator to fulfil their role as Directors. The Board acknowledges that best practice in UK Corporate Governance is continuously evolving and alignment to emerging standards is crucial for The Hanley. The regulatory authorities have published arrangements via Strengthening Accountability in UK Banking for a new senior managers' and certification regime which came into effect in March 2016 and the Board has ensured adherence with this regulatory change.

Performance and evaluation reviews are carried out for each Director on an annual basis by the Chairman with the Senior Independent Director carrying out the review of the Chairman.

The Society's rules require all Directors to submit themselves for election by the members at the first opportunity after their appointment and for re-election every three years. Where a Director has served six years or more, the Board has agreed that they should put themselves forward for annual re-election by the members.

Communications

The Board encourages communications with its members through half-yearly customer forum meetings where the Chief Executive or Deputy Chief Executive speak informally on the main business developments and members present have the opportunity to raise any questions. The Society holds its Annual General Meeting (AGM) in December and details of the AGM are sent to all eligible voting members who are encouraged to attend and to use their vote or appoint a proxy to vote if they choose not to, or are unable to, attend the meeting. Voting results are published on the Society's website.

Corporate Governance *continued*

Roles and responsibilities

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman is responsible for setting the Board's agenda and promoting a culture of openness and debate and the Board strongly supports the Society's aim to look after its employees to deliver the best service levels possible at all times.

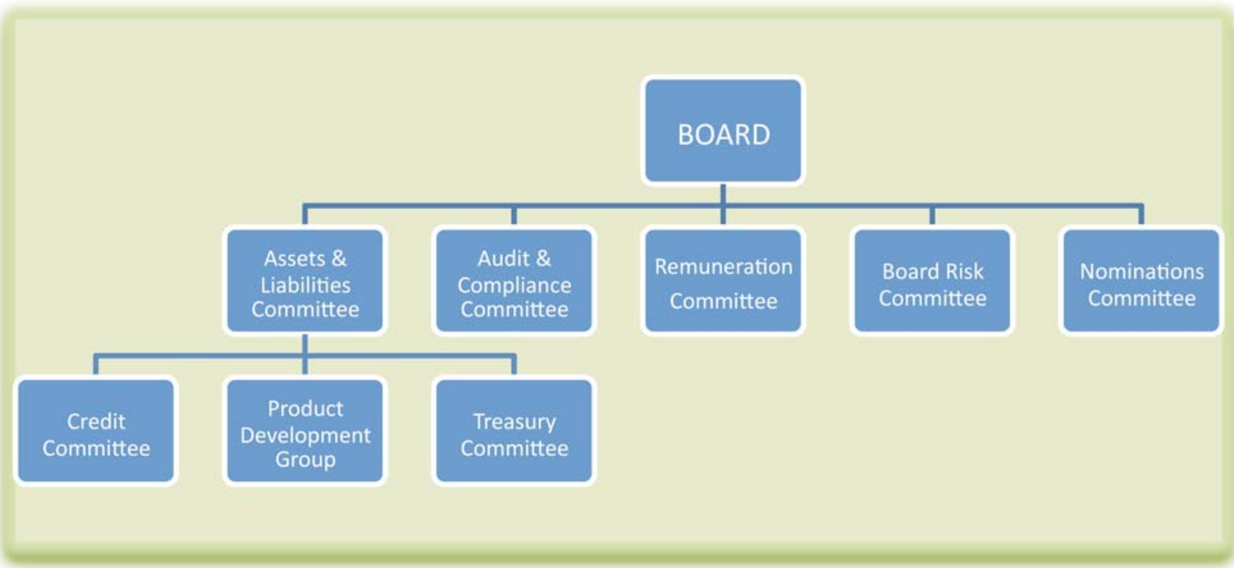
The Board meets at least 8 times per year and convenes a separate strategy meeting where the Society's strategic objectives are agreed together with financial and operational resources to deliver these objectives. For each meeting, comprehensive Board packs are circulated in a timely manner to ensure Board members can perform their duties effectively.

The principal functions of the Board are to:

- Provide leadership and challenge;
- Set the Society's Strategy, policy, internal limits, risk appetite and risk management framework;
- Ensure there are robust systems and controls in place;
- Review business performance against objectives;
- Maintain a strong capital base;
- Provide financial reporting to regulators and members;
- Determine remuneration of Non-Executive and Executive Directors;
- Formulate succession plans for Board and Senior Management;
- Operate in a compliant manner and in accordance with regulatory and legal requirements.

Board Committees

The Board has 5 main sub-committees as follows:



The Credit Committee, Product Development Group and Treasury Committee are management committees reporting to the Assets & Liabilities Committee.

Board Committees *continued*

1. The Assets & Liabilities Committee convenes monthly and monitors and controls balance sheet risk, funding and liquidity in accordance with the Society's policy. For the year to 31 August 2016 the Committee comprised two Non-Executive Directors, Andrew Macdonald and Fionnuala Earley, who was replaced in May 2016 by Simon Woodings, and two Executive Directors, David Webster and Steven Jones (Chair).

2. The Audit & Compliance Committee meets quarterly and reviews the effectiveness of internal controls, the compliance function and the Group's risk management function. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence. For the year to 31 August 2016 the Committee comprised three Non-Executive Directors, Andrew Macdonald (Chair), Philip Dearing and John Wood who retired in April 2016 and was replaced by Fionnuala Earley.

3. The Remuneration Committee meets half yearly and independently reviews and recommends changes to the terms and conditions of employment of the Directors and Senior Managers. For the year to 31 August 2016 the Committee comprised three Non-Executive Directors, Veronica Oak (Chair), John Wood who retired in April 2016, and Philip Dearing.

4. The Board Risk Committee, chaired by Fionnuala Earley, meets 6 times per year and reviews and monitors risk tolerance in accordance with the Board's stated risk appetite and Risk Management Framework. The Society's risk management function is based on three lines of defence to ensure appropriate responsibility is allocated to the management for the reporting and escalation of risks. The business areas provide the first line of defence which includes ensuring the Society complies with policies, risk appetite and limits, stress testing, self-assessment and development of risk registers. The Risk and Compliance functions comprise the second line of defence, developing the risk framework and undertaking risk monitoring, challenge and oversight. Internal Audit act as the third line of defence, providing an independent challenge to the overall management of the framework and also providing assurance to the Board, Audit & Compliance Committee and Executive on the adequacy of both the first and second lines of defence. It ensures that risks are appropriately managed in accordance with policy and within the limits of the Board's stated risk appetite and provides assurance that the Society is adhering to regulatory risk requirements by monitoring actions taken to resolve any risk control weaknesses or failings in the Society's strategy, operations and performance. All Directors of the Society are members of the Board Risk Committee and members of the Executive team attend by invitation.

5. The Nominations Committee meets as required to consider Board appointments and to ensure that it comprises sufficient Directors who are fit and proper, independent and who can meet the collective and individual responsibilities of Board members. All Directors of the Society are members of the Nominations Committee.

Attendance at Board and Committee meetings for the year to 31 August 2016 has been recorded as follows:-

	Board	Assets & Liabilities	Audit & Compliance	Remuneration	Risk	Nominations
P. R. Dearing	8 (8)	–	4 (4)	1 (1)	6 (6)	2 (2)
F. B. Earley	7 (8)	9 (10)	1 (1)	–	5 (6)	1 (2)
S. Jones	8 (8)	12 (12)	–	–	6 (6)	2 (2)
A. S. Macdonald	7 (8)	11 (12)	4 (4)	–	5 (6)	2 (2)
V. Oak	8 (8)	–	–	1 (1)	6 (6)	2 (2)
D. Webster (to 31.8.2016)	7 (8)	11 (12)	–	–	5 (6)	1 (2)
J. H. Wood (to 30.4.2016)	6 (6)	–	3 (3)	1 (1)	5 (5)	1 (1)
S. Woodings (from 1.4.2016)	3 (3)	3 (3)	–	–	2 (2)	1 (1)

( ) = number of meetings eligible to attend

P. R. Dearing
Chairman
21 October 2016

Directors’ Responsibilities

Directors’ responsibilities for preparing the Annual Accounts

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

The Directors are required by the Building Societies Act 1986 (The Act) to prepare, for each financial year, Annual Accounts which give a true and fair view:

- of the state of the affairs of the Society and of the Group as at the end of the financial year;
- of the income and expenditure of the Society and of the Group for the financial year;
- of the cash flows of the Society and of the Group for the financial year.

In preparing those accounts, the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the Society’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society and Group:

- keeps accounting records in accordance with the Building Societies Act 1986;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The Directors have prepared forecasts of the Group’s financial position, including capital, for the period ending 12 months from the date of approval of these financial statements. In doing so they have also considered the effects on the Society’s business of operating under stressed but plausible operating conditions. As a result they are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on a going concern basis.

On behalf of the Board
P. R. Dearing
Chairman
21 October 2016

Independent Auditors' Report

Independent auditors' report to the members of The Hanley Economic Building Society

Report on the annual accounts

Our Opinion

In our opinion, The Hanley Economic Building Society's group annual accounts and society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 August 2016 and of the Group's and the Society's income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

What we have audited

The Hanley Economic Building Society's annual accounts comprise:

- the Group and Society statements of financial position as at 31 August 2016;
- the Group and Society income statements for the year then ended;
- the Group and Society statements of comprehensive income for the year then ended;
- the Group and Society statements of cash flow for the year then ended;
- the Group and Society statements of changes in members' interests for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures required have been presented elsewhere in the annual report, rather than in the notes to the annual accounts. These are cross-referenced from the annual accounts and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Buildings Societies Act 1986

In our opinion:

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- proper accounting records have not been kept by the Society; or
- the Society 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 no exceptions to report arising from this responsibility.

Responsibilities for the annual accounts and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the annual accounts.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 October 2016

Income Statements

For the year ended 31 August 2016

	Notes	Group 2016 £000	*Group 2015 £000*	Society 2016 £000	*Society 2015 £000*
Interest receivable and similar income	2	9,087	*9,181*	8,897	*8,971*
Interest payable and similar charges	3	(4,166)	*(4,332)*	(4,166)	*(4,332)*
Net interest income		4,921	*4,849*	4,731	*4,639*
Fees and commissions receivable	4	274	*337*	157	*174*
Fees and commissions payable	5	(103)	*(189)*	(78)	*(163)*
Net (losses) from derivative financial instruments	6	(71)	*(47)*	(71)	*(47)*
Total net income		5,021	*4,950*	4,739	*4,603*
Administrative expenses	7	(3,927)	*(3,613)*	(3,776)	*(3,470)*
Depreciation and amortisation	17/18	(188)	*(240)*	(188)	*(240)*
Other operating charges		(18)	*(18)*	(18)	*(18)*
Operating profit before impairment losses and provisions		888	*1,079*	757	*875*
Impairment gains on loans and advances	9	245	*141*	245	*141*
Provision for contingent liabilities and commitments – FSCS levy	25	(75)	*(180)*	(75)	*(180)*
Profit on ordinary activities before tax		1,058	*1,040*	927	*836*
Tax on profit on ordinary activities	10	(362)	*(232)*	(334)	*(191)*
Profit for the financial year	27	696	*808*	593	*645*

The notes on pages 24 to 62 form part of these accounts.

The above results are all derived from continuing operations. The profit for the financial year is attributable to the members of the Society. Prior year figures have been restated due to the change of accounting standards from previous UKGAAP to FRS102. See Note 31 for more details.

Statements of Comprehensive Income

For the year ended 31 August 2016	Notes	Group 2016 £000	*Group 2015 £000*	Society 2016 £000	*Society 2015 £000*
Profit for the financial year		696	*808*	593	*645*
Items that may be subsequently reclassified to the Income Statement					
Available for Sale Reserve	28	41	*17*	41	*17*
Tax on items that may be reclassified to the Income Statement	28	(9)	*(3)*	(9)	*(3)*
Other Comprehensive Income for the year net of tax		32	*14*	32	*14*
Total Comprehensive Income for the financial year		728	*822*	625	*659*

Statements of Financial Position

As at 31 August 2016

	Notes	Group 2016 £000	*Group 2015 £000*	Society 2016 £000	*Society 2015 £000*
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England	11	35,583	*32,836*	35,583	*32,836*
Loans and advances to credit institutions	12	6,956	*9,556*	6,829	*9,512*
Debt securities	13	39,732	*41,286*	39,732	*41,286*
		82,271	*83,678*	82,144	*83,634*
Derivative financial instruments	14	–	*10*	–	*10*
Loans and advances to customers	9/15	291,211	*279,562*	285,624	*273,159*
Investments in subsidiary undertakings	16	–	*–*	3,838	*4,708*
Tangible fixed assets	17	2,739	*2,905*	2,739	*2,905*
Intangible fixed assets	18	118	*125*	118	*125*
Other assets - deferred taxation	26	1,107	*1,393*	1,098	*1,383*
Prepayments and accrued income	19	721	*662*	721	*661*
Total assets		378,167	*368,335*	376,282	*366,585*
LIABILITIES					
Shares	20	311,013	*288,711*	311,013	*288,711*
Amounts owed to credit institutions	21	6,535	*14,536*	6,535	*14,536*
Amounts owed to other customers	22	34,183	*39,195*	34,183	*39,195*
Derivative financial instruments	14	569	*288*	569	*288*
Other liabilities	23	34	*416*	797	*1,211*
Accruals and deferred income	24	621	*602*	620	*601*
Provisions for liabilities – FSCS Levy	25	180	*283*	180	*283*
Total liabilities		353,135	*344,031*	353,897	*344,825*
Reserves					
General reserves	27	25,027	*24,331*	22,380	*21,787*
Available for sale reserves	28	5	*(27)*	5	*(27)*
Total reserves attributable to members of the Society		25,032	*24,304*	22,385	*21,760*
Total liabilities		378,167	*368,335*	376,282	*366,585*

A summary of the effects that transition to FRS102 and IAS39 has had on the financial statements is presented within Note 31. The notes on pages 24 to 62 form part of these accounts.

Approved by the Board of Directors
on 21 October 2016

P. R. DEARING
Chairman

A. S. MACDONALD
Vice Chairman

S. JONES
Deputy Chief Executive, Finance Director & Group Secretary

Statement of Changes in Members' Interests

For the year ended 31 August 2016

	Notes	General Reserve £000	Available for Sale Reserve £000	Total £000
GROUP				
At 1 September 2014		23,523	(41)	23,482
Profit for the year		808	–	808
Net gains from changes in financial assets		–	14	14
At 31 August 2015	27/28	24,331	(27)	24,304
Profit for the year		696	–	696
Net gains from changes in financial assets		–	32	32
At 31 August 2016	27/28	25,027	5	25,032
SOCIETY				
At 1 September 2014		21,142	(41)	21,101
Profit for the year		645	–	645
Net gains from changes in financial assets		–	14	14
At 31 August 2015	27/28	21,787	(27)	21,760
Profit for the year		593	–	593
Net gains from changes in financial assets		–	32	32
At 31 August 2016	27/28	22,380	5	22,385

Statements of Cash Flow

For the year ended 31 August 2016

	Group 2016 £000	*Group 2015 £000*	Society 2016 £000	*Society 2015 £000*
Cash flows from operating activities				
Profit before tax	1,058	*1,040*	927	*836*
Depreciation and amortisation of fixed assets	188	*240*	188	*240*
Decrease in fair value of derivative financial instruments and hedged items	71	*48*	71	*48*
(Increase) in effective interest rate adjustment	(4)	*(28)*	(4)	*(28)*
(Decrease) in impairment on loans and advances to customers	(414)	*(205)*	(414)	*(205)*
Net (gains) on disposal and amortisation of debt securities	(107)	*(17)*	(107)	*(17)*
Total cashflow from operating activities	792	*1,078*	661	*874*
Changes in operating assets and liabilities				
(Increase) in loans and advances to customers	(11,012)	*(8,589)*	(11,827)	*(9,637)*
Decrease in intercompany indebtedness	–	*–*	870	*1,212*
Increase in accruals and deferred income	19	*108*	19	*110*
(Increase) / decrease in prepayments and accrued income	(59)	*51*	(60)	*51*
Increase / (decrease) in amounts owed to credit institutions	(8,001)	*2,481*	(8,001)	*2,481*
Increase / (decrease) in amounts owed to other customers	(5,012)	*1,163*	(5,012)	*1,163*
Decrease in loans and advances to credit institutions	2,000	*22*	2,000	*22*
(Decrease) / increase in other liabilities	(187)	*(12)*	(234)	*50*
Increase in shares	22,302	*7,998*	22,302	*7,998*
(Decrease) in FSCS Provision	(103)	*(22)*	(103)	*(22)*
Taxation paid	(279)	*(205)*	(238)	*(167)*
Net cash generated from operating activities	460	*4,073*	377	*4,135*
Cash flows from investing activities				
Proceeds from sale of tangible fixed assets	32	*16*	32	*16*
Purchase of tangible fixed assets	(47)	*(87)*	(47)	*(87)*
Purchase of investment securities	(56,477)	*(85,367)*	(56,477)	*(85,367)*
Maturities and disposal of investment securities	58,179	*105,379*	58,179	*105,379*
Net cash used in investing activities	1,687	*19,941*	1,687	*19,941*
Net increase in cash and cash equivalents	2,147	*24,014*	2,064	*24,076*
Cash and cash equivalents at 1 September	40,392	*16,378*	40,348	*16,272*
Cash and cash equivalents at 31 August	42,539	*40,392*	42,412	*40,348*
Net cash generated from operating activities	2,147	*24,014*	2,064	*24,076*

Notes to the Accounts

1. Accounting policies

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Building Societies (Accounts and Related Provisions) Regulations 1998.

This is the first year in which the financial statements have been prepared under FRS102 "The Financial Reporting Standard applicable in the UK" in conjunction with IAS39 "Financial Instruments: Recognition and Measurement". The Society has adopted FRS102 which is mandatory for periods beginning on or after 1 January 2014 and has chosen the option to adopt IAS39. The prior year financial statements have been restated on adoption of FRS102 and IAS39 in the current year. Details of the impact that transition to FRS102 and IAS39 has had on the 31 August 2015 and 31 August 2014 balance sheet as well as the profit and loss account for the year ended 31 August 2015 are disclosed in Note 31.

Future amendments to FRS102

Amendments to FRS102 were issued in July 2014 as a result of changes to the EU directives and UK Companies Regulations. The amendments are mandatory for periods beginning on or after 1 January 2016, with early adoption permitted for periods beginning on or after 1 January 2015. Entities have to adopt and comply with all amendments if they elect to early adopt the amendments to FRS102 (issued in July 2015). For the year ending 31 August 2016, the Society and Group have not early adopted the amendments to FRS102. These amendments set out the presentation and disclosure requirements applicable to small entities based on the new small companies regime and include a small number of other amendments necessary to maintain consistency between FRS102 and Company law. The amendments are not expected to have a material impact on the Group or Society.

Basis of accounting

The accounts have been prepared on a going concern basis under the historical cost convention with the exception of the following:
- Available for sale assets are held at fair value;
- Derivatives and underlying hedged items are held at fair value.

The financial statements are presented in Sterling (£). There are no foreign currency transactions.

Basis of consolidation

The Group accounts consolidate the accounts of the Society and all its subsidiary undertakings, and exclude any profits or losses on intra Group transactions. These accounts are made up to 31 August 2016. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at the lower of cost and recoverable amount. Uniform accounting policies are applied throughout the Group.

Exemptions

The Group has taken exemption as provided in Section 33.1A of FRS102 and does not disclose transactions with members of the same group that are wholly owned.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Interest income and expense

Interest income and expense in respect of all financial assets is credited to the Income Statement as it becomes receivable with the exception of certain fees and cost that are recognised on an effective interest rate basis. These include cashback, application fees, valuation fees, broker fees and higher lending fees. The effect of the policy is to spread the impact of relevant costs and fees directly attributable and incremental to setting up the loan, over the effective life of the mortgage, which broadly equates to the incentive period of the mortgage.

Interest payable on shares and amounts owed to credit institutions and other customers is accrued on a daily interest basis.

Fees and commissions

Fees payable and receivable other than relating to mortgage loans (which are recognised in accordance with effective interest rate), including sales commission, are recognised when the relevant service is provided.

Financial assets

The Group and Society have chosen to adopt the recognition and measurement provisions of IAS39 – Financial Instruments: Recognition and Measurement, and disclosure requirements of section 11 and 12 of FRS102 in respect of Financial Instruments.

a) Loans and receivables

Loans and receivables are predominantly mortgage loans to customers and money market advances held for liquidity purposes. They are recorded at amortised cost, including any effective interest rate adjustment, less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

b) Financial asset at fair value through profit and loss

The Group uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes. A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain/(losses) from derivative financial instruments.

All derivatives entered into by the Group are for the purposes of providing an economic hedge. Hedge accounting is an optional treatment but the specific rules and conditions in IAS39 have to be complied with before it can be applied. When transactions meet the criteria specified in IAS39, the Group applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedged risk are recorded in the Income Statement to offset the fair value movement of the related derivative. The Group has classified all of its derivatives as fair value hedges. To qualify for hedge accounting at inception the hedge relationship must be clearly documented. At inception the derivative must be expected to be highly effective in offsetting the hedged risk, and effectiveness must be tested throughout the life of the hedge relationship.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. If the underlying instrument is sold or repaid, the unamortised fair value adjustment is immediately recognised in the Income Statement and therefore as a consequence within the statement of changes in Members' Interests. A summary of the effects of hedging and the associated fair value adjustments can be found in Notes 14 and 30.

c) Available for sale assets – debt securities

Available for sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They may be sold in response to needs for changes in liquidity or changes in interest rates. The Group's debt securities are classified as available-for-sale assets. The Group measures debt securities at fair value, with subsequent changes in fair value being recognised through the Statement of Comprehensive Income, except for impairment losses which are recognised in profit or loss.

Further information regarding how fair values are determined can be found in Note 30 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available-for-sale reserves and recycled to the Income Statement.

1. Accounting policies (continued)

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. No such assets or liabilities are offset in the Statement of Financial Position.

e) Financial liabilities

Financial liabilities are measured at amortised cost, and are recognised on the Statement of Financial Position when the Society becomes a party to the contractual provision of the instrument. Financial liabilities are derecognised when the liability is extinguished which is when the contractual obligation is discharged or expires.

Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised providing for temporary differences between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the statement of financial position date, depending on the date at which they are expected to reverse.

Deferred tax has been recognised in respect of all timing differences at the reporting date, with the exception of the following:

- Difference relating to investments in subsidiaries, to the extent that the parent is able to control reversal of the timing differences and it is probable they will not reverse in the foreseeable future;
- Permanent differences, other than those arising on business combinations.

FRS102 prohibits discounting of deferred tax.

Tangible fixed assets

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

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

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets over their estimated useful economic lives as follows:

• Freehold buildings and leasehold properties (long)	–	50 years on a straight line basis
• Leasehold land and leasehold properties (short)	–	Life of lease on a straight line basis
• Equipment, fixtures and fittings	–	5 to 10 years on a straight line basis
• Vehicles	–	25% on the reducing balance

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

Intangible assets

The costs of computer software acquired where the Group will derive future economic benefit are capitalised at the acquisition date. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful lives. Computer software is amortised from the date it is available for use. The estimated useful lives is within a range of 3 to 7 years based on historical experience.

The Group reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Cash and cash equivalents

For the purposes of the Statements of Cash Flow, cash and cash equivalents comprise balances with less than 3 months to maturity at the Statements of Financial Position date, including cash in hand and balances with the Bank of England and loans and advances to credit institutions.

Leases

Operating lease rentals are charged to the Income Statement account on a straight line basis over the period of the lease. The Group has no finance lease agreements.

Impairment of loans and advances to customers and forbearance

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cashflows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

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

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

In assessing collective impairment, the Group uses statistical modelling of historical trends such as forced sale discounts, house price movements, the timing of expected recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cashflows discounted at the asset's original effective interest rate basis. A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Group include:

- Temporary transfer to an interest only mortgage;
- Reduced monthly payment;
- Product review;
- Capitalisation of arrears; and
- Extension of mortgage term.

1. Accounting policies (continued)

Customers requesting a forbearance option will need to provide information to support the request which is likely to include a budget planner, statement of assets and liabilities, bank/credit card statements and payslips, in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with the Society's policy and procedures. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances to customers. Interest on the impaired assets continues to be recognised through the unwinding of the discount at the original effective interest. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on debt securities

At each Statements of Financial Position date the Group assesses whether or not there is objective evidence that individual debt instruments are impaired. In determining whether there is any objective evidence of impairment the Group takes into account a number of factors including:

- Significant financial difficulties of the issuer or obligor;
- Any breach of contract or covenants;
- The granting of any concession or rearrangement of terms;
- The disappearance of an active market;
- Any significant downgrade of ratings of the issuer or obligor;
- Any significant reduction in market value of the instrument.

In some cases a significant adverse change in one of the above factors will cause the Group to determine that there is objective evidence of impairment. In other cases it may not be possible to identify a single event that identifies impairment. The Group may additionally determine that there is impairment where there are a number of factors contributing to that view.

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the statement of financial position date, then, in the case of available for sale instruments, the cumulative loss that had been recognised directly in reserves is removed from reserves and recognised in the Income Statement. In the case of held to maturity instruments an appropriate charge is made to the Income Statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event occurring after the impairment loss was recognised through the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised through the Income Statement.

Pension costs

The Group contributes to personal pension plans of its staff. The Group's contributions are charged against profits in the year to which they relate. The charge to the Income Statements for the year is shown in Note 7 to the accounts.

Critical accounting estimates and judgements

As a part of the preparation of the Annual Report and Accounts the Group makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on many factors including historical experience and expectations of future events that are believed to be reasonable under the circumstances.

These estimates and judgements are described below:

a) Impairment losses and advances

The Group reviews its mortgage portfolio to assess the adequacy of its impairment provisions at least on a quarterly basis. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be identified. This evidence may include observable data indicating that there has been an adverse change in the payments status or borrower's local economic conditions, including forbearance measures such as a transfer to interest only payment and term extensions that correlate with defaults on assets in the Group.

Management also assesses the loss on loans and advances as a result of expected movements in house prices and the forced sale discount on properties in possession as well as the likely time taken to recover a loan through the sale of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

The expected date of disposal of the individual mortgage asset is an important assumption in determining the level of impairment provision. If the date of disposal was within 1 year of the Statement of Financial Position date, it would result in the impairment provision being increased from £9.2m to £10.2m. Alternatively an assumed 15 year disposal plan would result in the impairment provision being increased from £9.2m to £9.6m.

b) Effective Interest Rate

FRS102 requires that all of the cash flows directly associated with financial instruments must be recognised in the Income Statement using the effective interest rate method. When this approach is applied to a mortgage portfolio, judgements must be made to estimate the average life of each mortgage where a product fee is attached. These judgements are applied taking into account factors including the terms of the particular products, historic repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance.

c) Deferred taxation

A deferred tax asset is recognised to the extent that it is considered probable that future taxable profits will be available to utilise its carrying value. In preparing future budgets for the Group the Board consider past performance, the Group and Society's current financial position and an expectation of future growth and development. These budgets show that the Group will remain sufficiently profitable to allow for the full recognition of the deferred tax asset. In the event of future changes to UK Corporation Tax, currently at 20%, or the level of budgeted profits, may result in a change to the recognised assets.

d) Fair values of derivatives and financial assets

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

- Available for sale – measured at fair value using market prices. The Group holds a portfolio of high quality liquid assets and certificates of deposit in its management of liquidity risk.
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data. These assets are held by the Group in its management of interest rate risk.

2. Interest receivable and similar income

	Group		Society	
	2016	*2015*	2016	*2015*
	£000	*£000*	£000	*£000*
On loans fully secured on residential property	8,334	*8,482*	8,098	*8,209*
On other loans	156	*167*	156	*167*
On debt securities – interest and other income	387	*436*	387	*436*
On other liquid assets – interest and other income	210	*96*	210	*96*
Interest receivable from subsidiary undertaking	–	*–*	46	*63*
	9,087	*9,181*	8,897	*8,971*

		Group		Society	
		2016	*2015*	2016	*2015*
3.	**Interest payable and similar charges**	£000	*£000*	£000	*£000*
	On shares held by individuals	3,160	*3,362*	3,160	*3,362*
	On deposits and other borrowings	622	*602*	622	*602*
	Net interest expense on derivative financial instruments	384	*368*	384	*368*
		4,166	*4,332*	4,166	*4,332*

		Group		Society	
		2016	*2015*	2016	*2015*
4.	**Fees and commissions receivable**	£000	*£000*	£000	*£000*
	Insurance commissions	81	*108*	81	*108*
	Fees receivable	63	*49*	62	*47*
	Rentals and sundry income	14	*19*	14	*19*
	Subsidiary fee income	116	*161*	–	*–*
		274	*337*	157	*174*

		Group		Society	
5.	**Fees and commissions payable**				
		2016	*2015*	2016	*2015*
		£000	*£000*	£000	*£000*
	Bank charges	32	*108*	32	*108*
	Other fees payable	71	*81*	46	*55*
		103	*189*	78	*163*

		Group		Society	
6.	**Net (losses) from derivative financial instruments**				
		2016	*2015*	2016	*2015*
		£000	*£000*	£000	*£000*
	Derivatives in designated fair value hedge relationships	(314)	*(295)*	(314)	*(295)*
	Adjustment to hedging items in fair value hedged accounting relationships	220	*271*	220	*271*
	Derivatives not in designated fair value hedge relationships	23	*(23)*	23	*(23)*
		(71)	*(47)*	(71)	*(47)*

The net losses from derivative financial instruments represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets. This gain or loss will tend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

7. Administrative expenses and staff numbers

	Group		Society	
	2016	*2015*	2016	*2015*
Administrative expenses	£000	*£000*	£000	*£000*
Directors' emoluments:				
(i) Fees	134	*115*	134	*115*
(ii) For executive services	353	*340*	353	*340*
(iii) Pension to the widow of a former Director	–	*3*	–	*3*
Remuneration and expenses of staff:				
(i) Salaries and wages	1,440	*1,439*	1,314	*1,319*
(ii) Social security costs	178	*177*	171	*172*
(iii) Other pension costs	166	*150*	166	*150*
Remuneration of auditors*:				
For audit work	116	*74*	116	*74*
For audit-related assurance services	–	*22*	–	*22*
Operating leases – land and buildings	57	*92*	57	*92*
Other administrative expenses	1,483	*1,201*	1,465	*1,183*
	3,927	*3,613*	3,776	*3,470*

* Remuneration of the auditors disclosed above includes VAT. The audit fee in 2016 includes £3,000 which relates to the audit of the subsidiary financial statements. Additionally the fee includes £22,000 of non-recurring costs in respect of the FRS102 transition.

Staff numbers	2016		*2015*	
The average monthly number of persons employed during the year was:	Full Time	Part Time	*Full Time*	*Part Time*
At head office	24	10	*25*	*12*
At branch offices	20	9	*20*	*12*
Society	44	19	*45*	*24*
Subsidiary undertakings	1	2	*1*	*2*
Group	45	21	*46*	*26*

8. Directors' and Key Managers' Remuneration

Total remuneration of the Society's Directors for the year was £487,000 (2015: £455,000). Full details are given in the Directors' Remuneration Report on page 11. Remuneration of key management personnel, who are not Executive Directors, for the year was £205,000 (2015: £187,000).

The Society does not contribute to Non-Executive Directors' pensions.

Directors' loans and transactions

At 31 August 2016 there were 2 (2015: 1) outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons, amounting in aggregate to £194,986 (2015: £186,218). A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the Annual General Meeting.

9. Provision for impairment losses on loans and advances to customers

	Group			Society		
	Loans fully secured on residential property	Other loans fully secured on land	Total	Loans fully secured on residential property	Other loans fully secured on land	Total
	£000	£000	£000	£000	£000	£000
Individual provision						
At 1 September 2015	9,610	–	9,610	9,610	–	9,610
Amounts utilised	(169)	–	(169)	(169)	–	(169)
Released in the year	(245)	–	(245)	(245)	–	(245)
At 31 August 2016	9,196	–	9,196	9,196	–	9,196
Collective provision						
At 1 September 2015	138	12	150	88	12	100
At 31 August 2016	138	12	150	88	12	100
Individual provision						
At 1 September 2014	9,815	–	9,815	9,815	–	9,815
Amounts utilised	(64)	–	(64)	(64)	–	(64)
Released in the year	(141)	–	(141)	(141)	–	(141)
At 31 August 2015	9,610	–	9,610	9,610	–	9,610
Collective provision						
At 1 September 2014	138	12	150	88	12	100
At 31 August 2015	138	12	150	88	12	100
Total provision:						
31 August 2016	9,334	12	9,346	9,284	12	9,296
31 August 2015	9,748	12	9,760	9,698	12	9,710

The Provisions as at 31 August 2016 and 2015 have been deducted from loans fully secured on residential property and loans fully secured on land in the balance sheet. Full details are included in Note 15, 'Loans and advances to customers'. During the year the Society disposed of 1 property (2015: 1) utilising specific provisions of £169k (2015: £64k) previously allocated to the exposure. Furthermore an amount of £245k (2015: £141k) has been released in the year reflecting the reduction in the provisions required on impaired loans.

	Group		Society	
10 Tax on profit on ordinary activities	2016	*2015*	2016	*2015*
	£000	*£000*	£000	*£000*
a) Analysis of charge in year:				
Current tax	76	*227*	49	*185*
(Over)/under provision of tax in prior years	2	*(2)*	2	*(1)*
Total current tax (see Note (b) below)	78	*225*	51	*184*
Deferred tax (see Note 26):				
Origination and reversal of timing differences	284	*7*	283	*7*
Tax on profit on ordinary activities	362	*232*	334	*191*
b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	1,058	*1,040*	927	*836*
Tax on profit on ordinary activities at UK standard rate of 20% (2015: 20.58%)	211	*210*	184	*168*
Effects of:				
Capital allowances in excess of depreciation and other timing differences	(12)	*17*	(12)	*17*
Expenses not deductible for tax purposes	19	*–*	19	*–*
Prior year adjustments	2	*(2)*	2	*(1)*
Tax adjustments and other timing differences	(142)	*–*	(142)	*–*
Current tax charge for year	78	*225*	51	*184*

The standard rate of Corporation Tax in the UK was 20% with effect from 1 April 2015 and accordingly the Society's profits have been taxed at this effective rate of 20% (2015: 20.58%). Deferred tax has been measured based on the substantively enacted rate of 18%. Further details on deferred tax are included in Note 26.

	Group and Society	
11. Cash in hand and balances with the Bank of England	2016	*2015*
	£000	*£000*
Cash in hand	376	*525*
Bank of England Reserve Account	35,207	*32,311*
	35,583	*32,836*

Cash and cash equivalents on the Statements of Cash Flow constitutes cash in hand and balances with the Bank of England and loans and advances to credit institutions with maturities of less than three months. This totals £42,539k (2015: £40,392k) for the Group and £42,412k (2015: £40,348k) for the Society.

	Group		Society	
12. Loans and advances to credit institutions	2016	*2015*	2016	*2015*
Loans and advances to credit institutions have remaining maturities as follows:	£000	*£000*	£000	*£000*
Accrued interest	1	*1*	1	*1*
Repayable on demand	6,955	*7,555*	6,828	*7,511*
In more than three months but not more than one year	–	*2,000*	–	*2,000*
	6,956	*9,556*	6,829	*9,512*

The Society has three Credit Support Annexes (CSA) for its derivative instruments which typically provides for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. As at 31 August 2016 a total exchange of collateral of £541k (2015: £171k) has taken place in accordance with the trigger points within the respective CSA. These are included within loans and advances to credit institutions and are repayable on demand.

13. Debt securities	Group and Society 2016 £000	*2015 £000*
Treasury bills issued by UK Government	2,000	*6,996*
Certificates of deposits	37,732	*34,290*
	39,732	*41,286*

The Board consider the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities.

Movements in debt securities during the year are summarised as follows:	Group and Society 2016 £000	*2015 £000*
At 1 September 2015	41,286	*61,262*
Additions	56,477	*85,367*
Disposals and maturities	(58,167)	*(105,363)*
Movement in premium and accrued interest	95	*3*
Gains in fair value recognised other comprehensive income	41	*17*
	39,732	*41,286*

14. Derivative financial instruments	Group and Society Contract Notional Amount £000	Fair Value Assets £000	Fair Value Liabilities £000
At 31 August 2016			
Unmatched derivatives - Interest rate swaps	4,500	–	2
Derivatives designated as fair value hedges interest rate swaps	67,250	–	567
	71,750	–	569
At 31 August 2015			
Unmatched derivatives - Interest rate swaps	12,000	–	24
Derivatives designated as fair value hedges interest rate swaps	58,750	10	264
	70,750	10	288

Unmatched derivatives related to swaps which had not been matched against mortgages for hedge accounting purposes as at the relevant balance sheet date.

		Group		Society	
15.	**Loans and advances to customers**	2016	*2015*	2016	*2015*
		£000	*£000*	£000	*£000*
	Loans and advances to customers comprise:				
	Loans fully secured on residential property	286,288	*273,964*	280,701	*267,561*
	Loans fully secured on land	4,441	*5,336*	4,441	*5,336*
	Fair value adjustment for hedged risk	482	*262*	482	*262*
		291,211	*279,562*	285,624	*273,159*

Loans and advances to customers are held at amortised cost (with the exception of loans in a hedging relationship), with interest and the associated costs being recognised in the interest receivable and similar income line of the Income Statement on an effective interest rate basis.

Fair value hedging adjustments of £482k (2015: £262k) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

The maturity of loans fully secured on residential property and loans fully secured on land from the balance sheet date is as follows:

	Group		Society	
	2016	*2015*	2016	*2015*
	£000	*£000*	£000	*£000*
Repayable on demand	10,513	*12,361*	10,513	*12,361*
In not more than three months	2,395	*3,446*	2,395	*3,446*
In more than three months but not more than one year	12,197	*18,256*	12,197	*18,256*
In more than one year but not more than five years	57,970	*50,755*	57,970	*50,755*
In more than five years	216,937	*204,183*	211,300	*197,730*
	300,012	*289,001*	294,375	*282,548*
Provisions for bad and doubtful debts (See Note 9)	(9,346)	*(9,760)*	(9,296)	*(9,710)*
Fair value adjustment for hedged risk	482	*262*	482	*262*
Effective Interest Rate Adjustment	63	*59*	63	*59*
	291,211	*279,562*	285,624	*273,159*

This analysis assumes that each mortgage account will continue under its current terms and, in particular, that it will not be redeemed before the contractual maturity date. However, the Society's mortgage conditions give the Society the right to demand repayment of the mortgage debt in full after three months written notice to the borrower. When the borrower is in default repayment is due immediately.

		Society	
16. Investments in subsidiary undertakings	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 1 September 2015	–	4,708	4,708
Advances	–	140	140
Repayments	–	(1,010)	(1,010)
At 31 August 2016	–	3,838	3,838

The Society directly holds 100% of the issued ordinary share capital of the following companies which are registered in England and Wales:

	Principal Activity
Hanley Mortgage Services Limited	Mortgage lender
Hanley Financial Services Limited	Financial advisory services

Both subsidiary undertakings operate within the United Kingdom and are included in the Group's accounts.

Hanley Mortgage Services Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds 100% of the issued shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the purchase and administration of mortgage portfolios. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

Hanley Financial Services Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds 100% of the issued shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is providing customers with professional financial advice and services. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

As at 31 August 2016 amounts due to Hanley Financial Services Limited from the Society of £789k (2015: £836k) are included in Other Liabilities, see Note 23.

17. Tangible fixed assets

	Group and Society				
		Land and Buildings			
	Freehold £000	*Long Lease* £000	*Short Lease* £000	*Equipment, Fixtures, Fittings & Vehicles* £000	*Total* £000
Cost at 1 September 2015	1,012	2,124	249	849	4,234
Additions during the year	–	–	–	5	5
Disposals during the year	–	–	–	(58)	(58)
Cost at 31 August 2016	1,012	2,124	249	796	4,181
Depreciation at 1 September 2015	248	238	217	626	1,329
Charge for the year	20	39	19	61	139
Disposals during the year	–	–	–	(26)	(26)
Depreciation at 31 August 2016	268	277	236	661	1,442
Net book value:					
at 31 August 2015	764	1,886	32	223	2,905
at 31 August 2016	744	1,847	13	135	2,739

2015

	Group and Society				
		Land and Buildings			
	Freehold £000	*Long Lease* £000	*Short Lease* £000	*Equipment, Fixtures, Fittings & Vehicles* £000	*Total* £000
Cost at 1 September 2014	1,012	2,124	249	909	4,294
Additions during the year	–	–	–	78	78
Disposals during the year	–	–	–	(138)	(138)
Cost at 31 August 2015	1,012	2,124	249	849	4,234
Depreciation at 1 September 2014	228	199	195	676	1,298
Charge for the year	20	39	22	72	153
Disposals during the year	–	–	–	(122)	(122)
Depreciation at 31 August 2015	248	238	217	626	1,329
Net book value:					
at 31 August 2014	784	1,925	54	233	2,996
at 31 August 2015	764	1,886	32	223	2,905

All land and buildings are occupied by the Group and the Society.

	Group and Society	
	2016	*2015*
18. Intangible fixed assets	£000	*£000*
Cost as at 1 September 2015	644	*1,336*
Additions during the year	42	*8*
Disposals during the year	–	*(700)*
Cost as at 31 August 2016	686	*644*
Amortisation as at 1 September 2015	519	*1,132*
Charge for the year	49	*87*
Disposals during the year	–	*(700)*
Amortisation as at 31 August 2016	568	*519*
Net Book Value		
at 31 August 2015	125	*204*
at 31 August 2016	118	*125*

	Group		Society	
	2016	*2015*	2016	*2015*
19. Prepayments and accrued income	£000	*£000*	£000	*£000*
Prepayments and accrued income	721	*662*	721	*661*
	721	*662*	721	*661*

	Group and Society	
	2016	*2015*
20. Shares	£000	*£000*
Held by individuals	311,013	*288,711*
	311,013	*288,711*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	939	*985*
Repayable on demand	209,344	*189,283*
In not more than three months	96,198	*93,885*
In more than three months but not more than one year	3,982	*4,075*
In more than one year	550	*483*
	311,013	*288,711*

	Group and Society	
	2016	*2015*
21. Amounts owed to credit institutions	£000	*£000*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	35	*36*
In not more than three months	1,000	*7,000*
In more than three months but not more than one year	5,500	*7,500*
	6,535	*14,536*

	Group and Society	
	2016	*2015*
22. Amounts owed to other customers	£000	*£000*
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	24	*18*
Repayable on demand	25,682	*27,704*
In not more than three months	627	*623*
In more than three months but not more than five years	7,850	*10,850*
	34,183	*39,195*

	Group		Society	
	2016	*2015*	2016	*2015*
23. Other liabilities	£000	*£000*	£000	*£000*
Income tax	–	*187*	–	*187*
Corporation tax due within one year	34	*229*	8	*188*
Amounts due to Group undertakings (See Note 16)	–	*–*	789	*836*
	34	*416*	797	*1,211*

	Group		Society	
	2016	*2015*	2016	*2015*
24. Accruals and deferred income	£000	*£000*	£000	*£000*
Accruals	522	*437*	521	*436*
Deferred income	99	*165*	99	*165*
	621	*602*	620	*601*

	Group		Society	
	2016	*2015*	2016	*2015*
25. Provision for liabilities – FSCS Levy	£000	*£000*	£000	*£000*
Provision for FSCS Levy	180	*283*	180	*283*
	180	*283*	180	*283*

The Society has a liability and a contingent liability in respect of contributions to the Financial Service Compensation Scheme. In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) based on its share of protected deposits, 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 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009. The FSCS has met, or will meet, the claims by way of loans received from HM Treasury with the interest on these loans being recovered through levies on UK deposit takers.

The loans (except Bradford & Bingley Plc which is repayable on 29 February 2024) have been fully repaid. The FSCS confirmed it expects to receive full repayment of the debt of £1.6bn owed to it by Bradford & Bingley Plc by the repayment date. The non-Bradford & Bingley Plc loans were repaid by a levy on deposit takers in three roughly equal instalments, in September 2013, September 2014, and September 2015.

As a result of notifications it has received from the Financial Services Compensation Scheme, the Society has recognised in this year's accounts a charge for a levy of £75,000 which gives a total levy provision, as at 31 August 2016, of £180,000. This provision is in respect of the scheme year 2015/16, which is calculated with reference to the protected deposits at 31 December 2014, and the scheme year 2016/17, which has been estimated based on the protected deposits held at 31 December 2015. The levy amounts have been calculated with reference to the level of the Society's protected deposits and expected compensation levies.

The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of Bradford & Bingley Plc to fully repay the respective HM Treasury loan.

	Group		Society	
	2016	*2015*	2016	*2015*
26. Deferred taxation	£000	*£000*	£000	*£000*
Deferred tax asset	1,107	*1,393*	1,098	*1,383*
Elements of deferred taxation are as follows:				
Differences between accumulated depreciation and capital allowances	(127)	*(129)*	(126)	*(129)*
Other short term timing differences	1,234	*1,522*	1,224	*1,511*
	1,107	*1,393*	1,098	*1,382*
At 1 September as previously stated	–	*(119)*	–	*(129)*
Changes on transition to FRS102 and IAS39. See Note 31.	–	*1,519*	–	*1,519*
Deferred taxation at 1 September 2015 restated	1,393	*1,400*	1,383	*1,390*
Deferred tax charge				
Items in relation to statement of comprehensive income	(284)	*(4)*	(283)	*(4)*
Movements in relation to debt securities	(2)	*(3)*	(2)	*(3)*
At 31 August 2016	1,107	*1,393*	1,098	*1,383*

The deferred tax asset is recognised at the substantively enacted UK Corporation Tax rate of 18%. Recognition of deferred tax assets depends on the availability of future taxable trading profits. Further details are included in Note 1.

		Group 2016 £000	*Group 2015 £000*	Society 2016 £000	*Society 2015 £000*
27.	**General reserves**				
	At 1 September as previously stated	24,331	*29,459*	21,787	*27,078*
	Changes on transition to FRS102 and IAS39	–	*(5,936)*	–	*(5,936)*
	Restated General Reserves at 1 September	24,331	*23,523*	21,787	*21,142*
	Profit for the financial year	696	*808*	593	*645*
		25,027	*24,331*	22,380	*21,787*

		Group and Society 2016 £000	*2015 £000*
28.	**Available for sale reserves**		
	At 1 September	(27)	*(41)*
	Net gain from change in fair value	41	*17*
		14	*(24)*
	Corporation Tax on Available for Sale Reserve	(7)	*–*
	Deferred Tax on Available for Sale Reserve	(2)	*(3)*
		5	*(27)*

29. Guarantees and other financial commitments

Annual commitments under non-cancellable operating leases, excluding VAT, are as follows:

	Group and Society 2016 Land and buildings	*2015 Land and buildings*
Operating leases which expire:	£000	*£000*
Within one year	47	*77*
Within two to five years	144	*66*

30. 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 mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets & Liabilities Committee.

Instruments used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Society in accordance with the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The only derivatives used in balance sheet risk management are interest rate swaps and caps which are used to hedge group balance sheet exposures arising from fixed rate mortgage lending and from fixed rate savings products.

The Society applies fair value hedging techniques to reduce its interest rate risk as follows:

Activity	**Risk**	**Fair value interest rate hedge**
Fixed rate mortgages	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings	Decrease in interest rates	Group receives fixed, pays variable

The fair value of these hedges at 31 August 2016 and 31 August 2015 are shown in Note 14.

The following table sets out a summary of terms and conditions and accounting policies for financial instruments.

Financial instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	Fixed interest rates Fixed Term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt Securities	Fixed interest rates Fixed Term Short to medium term maturity	Available for sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term Fixed or variable interest rate	Loans and receivables at amortised cost if not in a hedging relationship Loans and advances held at fair value where in a hedging relationship accounted for at settlement date
Shares	Variable Term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed interest rates Fixed Term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed interest rates Fixed Term Short to medium term maturity	Amortised cost Accounted for at settlement date
Derivative Financial Instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of derivative	Fair value through profit and loss Accounted for at trade date

30. Financial instruments continued

Financial assets and liabilities are measured on an ongoing basis either at fair value or amortised cost. Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value and gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification.

	Group					
	Held at amortised cost		Held at fair value			
Carrying values by category 31 August 2016	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
Financial assets	£000	£000	£000	£000	£000	£000
Cash in hand and balances with Bank of England	–	35,583	–	–	–	35,583
Loans and advances to credit institutions	6,956	–	–	–	–	6,956
Debt securities	–	–	39,732	–	–	39,732
Derivative financial instruments	–	–	–	–	–	–
Loans and advances to customers	291,211	–	–	–	–	291,211
Total financial assets	298,167	35,583	39,732	–	–	373,482
Total non-financial assets						4,685
Total Group assets						378,167
Financial liabilities						
Shares	–	311,013	–	–	–	311,013
Amounts owed to credit institutions	–	6,535	–	–	–	6,535
Amounts owed to other customers	–	34,183	–	–	–	34,183
Derivative financial instruments	–	–	–	567	2	569
Total financial liabilities	–	351,731	–	567	2	352,300
Total non-financial liabilities						835
General and other reserves						25,032
Total Group liabilities						378,167

30. Financial instruments continued

Carrying values by category 31 August 2015	Group					
	Held at amortised cost		Held at fair value			
	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
Financial assets	£000	£000	£000	£000	£000	£000
Cash in hand and balances with Bank of England	–	32,836	–	–	–	32,836
Loans and advances to credit institutions	9,556	–	–	–	–	9,556
Debt securities	–	–	41,286	–	–	41,286
Derivative financial instruments	–	–	–	10	–	10
Loans and advances to customers	279,562	–	–	–	–	279,562
Total financial assets	289,118	32,836	41,286	10	–	363,250
Total non-financial assets						5,085
Total Group assets						368,335
Financial liabilities						
Shares	–	288,711	–	–	–	288,711
Amounts owed to credit institutions	–	14,536	–	–	–	14,536
Amounts owed to other customers	–	39,195	–	–	–	39,195
Derivative financial instruments	–	–	–	264	24	288
Total financial liabilities	–	342,442	–	264	24	342,730
Total non-financial liabilities						1,301
General and other reserves						24,304
Total Group liabilities						368,335

30. Financial instruments continued

Fair values of financial assets and liabilities carried at amortised cost

Fair value is the value for which an asset or liability could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

The fair value hierarchy when deriving fair values is split into three levels, as follows:
Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
Level 3 - inputs for the asset or liability that are not based on observable market data

a) Cash in hand and balances with Bank of England - Level 1
The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) Loans and advances to credit institutions - Level 1
The fair value of overnight deposits is the amount repayable on demand. The estimated fair value of loans and advances to credit institutions is calculated based on discounted expected future cash flows.

c) Loans and advances to customers - Level 2
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items as required by IAS39. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

d) Shares - Level 2
The fair value of shares with no stated maturity is the amount repayable on demand. The estimated fair value of fixed share accounts are based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

e) Amounts owed to credit institutions and to other customers - Level 1
The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

30. Financial instruments continued

Fair values of financial assets and liabilities carried at fair value

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

		Group			
31 August 2016	Notes	Level 1	Level 2	Level 3	Total
Financial assets		£000	£000	£000	£000
Available-for-sale					
Debt securities	13	39,732	–	–	39,732
Derivative financial instruments					
Interest rate swaps	14	–	–	–	–
		39,732	–	–	39,732
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	–	569	–	569
		–	569	–	569
31 August 2015 Restated					
Financial assets					
Available-for-sale					
Debt securities	13	41,286	–	–	41,286
Derivative financial instruments					
Interest rate swaps	14	–	10	–	10
		41,286	10	–	41,296
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	–	288	–	288
		–	288	–	288

Valuation techniques

The main valuation technique employed by the Group to establish fair value of the financial instruments disclosed above are set out below:

Debt securities – Level 1

Market prices have been used to determine the fair value of listed debt securities.

Interest rate swaps – Level 2

The valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

30. Financial instruments continued

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Group structures the level of credit risk it undertakes, by maintaining a governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain asset portfolios of high quality.

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

	Group 2016	*Group 2015*	Society 2016	*Society 2015*
Credit risk exposure	£000	*£000*	£000	*£000*
Cash in hand and balances with Bank of England	35,583	*32,836*	35,583	*32,836*
Loans and advances to credit institutions	6,956	*9,556*	6,829	*9,512*
Debt securities	39,732	*41,286*	39,732	*41,286*
Derivative financial instruments	–	*10*	–	*10*
Loans and advances to customers	291,211	*279,562*	285,624	*273,159*
Total statement of financial exposure	373,482	*363,250*	367,768	*356,803*
Off balance sheet exposure - mortgage commitments	16,096	*16,454*	16,096	*16,454*
Total	389,578	*379,704*	383,864	*373,257*

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Assets & Liabilities Committee is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to a single counterparty, or group of counterparties, and to industry sectors. This is monitored daily by the Society's Finance Director and reviewed monthly by the Assets & Liabilities Committee.

The Society's Liquidity Policy only permits lending to central government (which includes the Bank of England), banks with a high credit rating and building societies. The Finance Director performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

30. Financial instruments continued

An analysis of the Group's treasury asset concentration is shown in the tables below:

Industry sector	Group 2016 £000	Group 2016 %	Group *2015 £000*	Group *2015 %*
Banks	33,585	40.82	*36,813*	*43.99*
Building Societies	11,103	13.50	*7,033*	*8.40*
Central Bank	35,583	43.25	*32,836*	*39.24*
Central Government	2,000	2.43	*6,996*	*8.37*
	82,271	100.00	*83,678*	*100.00*

Geographic region	Group 2016 £000	AAA %	AA %	A %	BBB %	Other %	*2015 £000*
United Kingdom	82,271	0.00	45.89	41.51	11.37	1.23	*83,678*

The Group has no exposure to foreign exchange risk. All instruments are denominated in Sterling.

The Group's derivative financial instruments are analysed in the table below:

Geographic region	Group 2016 £000	AAA %	AA %	A %	BBB %	*2015 £000*
United Kingdom	71,750	0.00	16.72	29.62	53.66	*70,750*

There are no impairment charges against any of the Group's treasury assets at 31 August 2016.

30. Financial instruments continued

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's Credit Risk Appetite statement and Lending Policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board. When deciding on the overall risk appetite that the Group wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate and competitor activity. The Lending Policy must comply with all the prevailing regulatory policy and framework.

The lending portfolio as originated is monitored by the Board to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

Credit risk management information is comprehensive and is circulated to respective Board committees on a regular basis to ensure that the portfolio remains within the Group's risk appetite.

The Group operates throughout England & Wales and an analysis of the Group's geographical concentration is shown in the table below:

	Group and Society	
	2016	*2015*
Geographical analysis	%	*%*
East Anglia	3	*3*
East Midlands	6	*6*
London and South East	23	*24*
North East	2	*2*
North West	19	*19*
South West	7	*7*
Wales	4	*3*
West Midlands	30	*30*
Yorkshire and Humberside	6	*6*
	100	*100*

30. Financial instruments continued

The average loan to value (LTV) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the gross mortgage loan to the value of collateral held and adjusted by a house price index for loans which are on residential property.

The average LTV of mortgage loans is 52% (2015: 50%). All residential loans with an initial LTV of greater than 80% are insured for a seven year period from inception with a Lloyds of London insurance firm.

Further LTV information on the Group's mortgage portfolio is shown below:

	Group and Society	
LTV analysis	2016	*2015*
	%	*%*
>0% – 50%	29	*29*
>50% – 60%	14	*14*
>60% – 70%	16	*16*
>70% – 80%	21	*19*
>80% – 90%	7	*10*
>90% – 100%	5	*4*
>100%	8	*8*
	100	*100*
Average loans to value of mortgage loans (%)	52	*50*

All loans with a LTV exceeding 100% are regularly monitored by the Credit Committee. Further, all loans with a LTV exceeding 100% are included in the individual impairment provisioning model used to determine the adequacy of the Group's overall impairment provision. See Note 1.

30. Financial instruments continued

The table below provides information on loans by payment due status net of provisions:

	Group and Society			
Arrears analysis	2016	2016	*2015*	*2015*
Not impaired:	£000	%	*£000*	*%*
Neither past due or impaired	271,771	90.58	*258,430*	*89.42*
Past due up to 3 months	2,164	0.72	*2,872*	*0.99*
Past due 3 – 6 months	337	0.11	*455*	*0.16*
Past due 6 – 12 months	114	0.04	*65*	*0.02*
Past due over 12 months	–	–	*–*	*–*
Impaired:				
Not past due	7,146	2.40	*7,646*	*2.65*
Past due up to 3 months	183	0.06	*116*	*0.04*
Past due 3 – 6 months	45	0.01	*35*	*0.01*
Past due 6 – 12 months	–	–	*63*	*0.02*
Past due over 12 months	–	–	*14*	*0.01*
Possessions and LPA receiverships	18,252	6.08	*19,305*	*6.68*
Total as per Note 15	300,012	100.00	*289,001*	*100.00*

	Indexed	Unindexed	*Indexed*	*Unindexed*
Value of collateral held:	£000	£000	*£000*	*£000*
Neither past due or impaired	620,748	514,346	*600,747*	*500,580*
Past due but not impaired	7,317	5,201	*8,555*	*6,586*
Impaired	14,155	13,228	*16,634*	*15,483*
	642,220	532,775	*625,936*	*522,649*

The Group uses HPI indexing to update the property values of its mortgage portfolio on a monthly basis. Collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 31 August. The collateral consists of UK property and land.

The quality of the Group's mortgage book is reflected in the value of mortgage accounts in arrears as a percentage of the overall portfolio of 0.94% (2015: 1.25%).

With collateral capped to the amount of outstanding debt, the value of collateral held against 'Impaired' assets at 31 August 2016 is £14,155k (2015: £16,634k) against outstanding debt of £25,626k (2015: £27,179k). Any shortfall in collateral on impaired mortgage exposures is a key consideration in the assessment of the adequacy of individual impairment provisions. See Note 1.

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% ot the value of the total security at the point of origination.

The status 'past due up to three months but not impaired' and 'past due over three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount.

Possession balances represent those loans where the Group has taken action to realise the underlying security. The Group has various forbearance options to support customers who may find themselves in financial difficulty.

30. Financial instruments continued

Forbearance

This is where reduced monthly payment concessions allow a customer to make an agreed underpayment for a specific period of time. Forbearance is offered to customers who are experiencing specific cases of difficulty.

The concession, which is a reduced payment, is usually a temporary transfer to interest only which allows the customer to pay only the interest of the loan without reducing the capital. At the end of the concessionary period the Society works constructively with the customer to identify the most suitable payment plan to manage their monthly mortgage payments going forward.

Examples of these payment plans include increasing their normal monthly payment, subject to affordability, or extending the term of the mortgage again in order to reduce the mortgage payment to an affordable level for the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and are reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the forbearance activity is reported to the Board at regular intervals. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

At 31 August 2016 the Society had 5 cases (2015: 10) subject to forbearance measures. In each instance the loans were not impaired and were subject to interest only concessions at the year end.

30. Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Society will not have sufficient financial resources available to meet its obligations as they fall due, under either normal business conditions or a stressed environment. The Society's Liquidity Policy requires that a significant amount of its total assets are carried in the form of cash and other readily realisable assets in order to:

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

Monitoring of liquidity, in line with the Society's Liquidity Policy, is performed daily. Compliance with the policy is reported monthly to both ALCO and to the Board.

The Society's Liquidity Policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the liquidity risk assessment process. They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests). The stress tests are performed monthly and reported to ALCO to allow them to confirm the Liquidity Policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England Reserve Account, certificates of deposit and time deposits, supplemented by an amount of UK Government Treasury Bills purchased by the Society. At the end of the year the ratio of liquid assets to shares and deposits was 23.39% (2015: 24.44%).

The following tables on pages 54 and 55 analyse the Society's assets and liabilities into residual maturity groupings, based on the remaining period to contractual maturity at the Statement of Financial Position date. This is not representative of the Society's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

30. Financial instruments continued

Residual maturity as at 31 August 2016				Group			
Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non cash £000	Total £000
Liquid assets							
Cash in hand and balances with Bank of England	35,583	–	–	–	–	–	35,583
Loans and advances to credit institutions	6,956	–	–	–	–	–	6,956
Debt securities	–	21,184	18,548	–	–	–	39,732
Total liquid assets	42,539	21,184	18,548	–	–	–	82,271
Derivative financial instruments	–	–	–	–	–	–	–
Loans and advances to customers	10,513	2,395	12,197	57,970	217,078	(8,942)	291,211
Tangible assets	–	–	–	–	–	2,739	2,739
Intangible assets	–	–	–	–	–	118	118
Other assets	–	–	–	–	–	1,828	1,828
Total assets	53,052	23,579	30,745	57,970	217,078	(4,257)	378,167
Financial liabilities and reserves							
Shares	209,823	96,652	3,982	556	–	–	311,013
Amounts owed to credit institutions and other customers	25,683	1,632	13,403	–	–	–	40,718
Derivative financial instruments	–	–	–	–	–	569	569
Other liabilities	–	–	–	–	–	655	655
Provisions for liabilities - FSCS Levy	–	–	–	–	–	180	180
Reserves	–	–	–	–	–	25,032	25,032
Total liabilities and reserves	235,506	98,284	17,385	556	–	26,436	378,167
Net liquidity gap	(182,454)	(74,705)	13,360	57,414	217,078	(30,693)	–

There is no material difference between the maturity profile for the Group and that for the Society. All Group liquid assets are unencumbered as at the balance sheet date.

30. Financial instruments continued

Residual maturity as at 31 August 2015	Group						
	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non cash £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	32,836	–	–	–	–	–	32,836
Loans and advances to credit institutions	7,555	–	–	2,001	–	–	9,556
Debt securities	–	–	11,537	29,749	–	–	41,286
Total liquid assets	40,391	–	11,537	31,750	–	–	83,678
Derivative financial instruments	–	–	–	–	–	10	10
Loans and advances to customers	12,501	3,446	18,256	50,755	204,184	(9,580)	279,562
Tangible assets	–	–	–	–	–	2,905	2,905
Intangible assets	–	–	–	–	–	125	125
Other assets	–	–	–	–	–	2,055	2,055
Total assets	52,892	3,446	29,793	82,505	204,184	(4,485)	368,335
Financial liabilities and reserves							
Shares	189,800	94,348	4,076	487	–	–	288,711
Amounts owed to credit institutions and other customers	27,705	7,641	18,385	–	–	–	53,731
Derivative financial instruments	–	–	–	–	–	288	288
Other liabilities	–	–	–	–	–	1,018	1,018
Provisions for liabilities - FSCS Levy	–	–	–	–	–	283	283
Reserves	–	–	–	–	–	24,304	24,304
Total liabilities and reserves	217,505	101,989	22,461	487	–	25,893	368,335
Net liquidity gap	(164,613)	(98,543)	7,332	82,018	204,184	(30,378)	–

There is no material difference between the maturity profile for the Group and that for the Society. All Group liquid assets are unencumbered as at the balance sheet date.

30. Financial instruments continued

The following is an analysis of gross cash flows payable under financial liabilities.

31 August 2016			Group				
Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non cash £000	Total £000
Shares	209,823	96,797	4,014	686	–	–	311,320
Amounts owed to credit institutions and other customers	25,683	1,636	13,476	–	–	–	40,795
Derivative financial instruments	–	–	–	–	–	569	569
Total liabilities	235,506	98,433	17,490	686	–	569	352,684

31 August 2015			Group				
Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non cash £000	Total £000
Shares	189,800	94,487	4,108	593	–	–	288,988
Amounts owed to credit institutions and other customers	27,705	7,646	18,493	–	–	–	53,844
Derivative financial instruments	–	–	–	–	–	288	288
Total liabilities	217,505	102,133	22,601	593	–	288	343,120

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date. The derivative financial instrument cash flows include the payable leg of all interest rate swap derivatives held by the Group and Society at the Statement of Financial Position date.

30. Financial instruments continued

Market risk

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

The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA. Societies adopting the Matched approach should have a balance sheet where assets and liabilities are entirely in Sterling and use hedging contracts (or internal matching of assets and liabilities with similar interest rate and maturity features) to neutralise the risk arising from loans or funding other than at administered rates, on a tranche by tranche, product by product basis. By implication, societies adopting this approach should not be taking an interest rate view for the purposes of determining a hedging strategy.

The management of interest rate risk is based on a full Statement of Financial Position gap analysis. The Statement of Financial Position is subjected to a stress test of a 2% rise in interest rates on a monthly basis and the results are reported to the ALCO monthly. In addition, management review interest rate basis risk which is similarly reported to the ALCO monthly. Both sets of results are measured against the risk appetite for market risk which is currently set as a percentage of capital.

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are used solely to reduce exposure to interest rate risk, categorised by repricing date.

Interest reset date At 31 August 2016 **Financial Assets**	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Cash in hand and balances with the Bank of England	35,576	–	–	–	–	7	35,583
Loans and advances to credit institutions	6,955	–	–	–	–	1	6,956
Debt securities	20,002	4,505	14,997	–	–	228	39,732
Derivative financial instruments	–	–	–	–	–	–	–
Loans and advances to customers	217,795	4,001	35,113	43,648	–	(9,346)	291,211
Tangible and intangible fixed assets	–	–	–	–	–	2,857	2,857
Other assets	–	–	–	–	–	1,828	1,828
Total assets	280,328	8,506	50,110	43,648	–	(4,425)	378,167
Shares	285,291	5,691	18,694	398	–	939	311,013
Amounts owed to credit institutions	1,000	4,000	1,500	–	–	35	6,535
Amounts owed to other customers	26,140	3,023	4,996	–	–	24	34,183
Other liabilities	–	–	–	–	–	1,404	1,404
Reserves	–	–	–	–	–	25,032	25,032
Total liabilities	312,431	12,714	25,190	398	–	27,434	378,167
Net assets/(liabilities)	(32,103)	(4,208)	24,920	43,250	–	(31,859)	–
Off balance sheet items	70,750	(3,500)	(32,500)	(34,750)	–	_	–
Interest rate sensitivity gap	38,647	(7,708)	(7,580)	8,500	–	(31,859)	–
Cumulative gap	38,647	30,939	23,359	31,859	31,859	–	–

30. Financial instruments continued

The interest rate sensitivity of the Group at 31 August 2015 was:

Interest reset date At 31 August 2015 **Financial Assets**	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Non-interest bearing £000	Total £000
Cash in hand and balances with the Bank of England	32,825	–	–	–	–	11	32,836
Loans and advances to credit institutions	7,555	–	2,000	–	–	1	9,556
Debt securities	11,486	5,000	24,665	–	–	135	41,286
Derivative financial instruments	–	–	–	–	–	10	10
Loans and advances to customers	223,804	2,795	19,206	43,517	–	(9,760)	279,562
Tangible and intangible fixed assets	–	–	–	–	–	3,030	3,030
Other assets	–	–	–	–	–	2,055	2,055
Total assets	275,670	7,795	45,871	43,517	–	(4,518)	368,335
Shares	254,226	17,733	12,305	3,462	–	985	288,711
Amounts owed to credit institutions	7,000	4,000	3,500	–	–	36	14,536
Amounts owed to other customers	28,151	5,032	5,994	–	–	18	39,195
Derivative financial instruments	–	–	–	–	–	288	288
Other liabilities	–	–	–	–	–	1,301	1,301
Reserves	–	–	–	–	–	24,304	24,304
Total liabilities	289,377	26,765	21,799	3,462	–	26,932	368,335
Net assets/(liabilities)	(13,707)	(18,970)	24,072	40,055	–	(31,450)	–
Off balance sheet items	57,750	(11,000)	(14,500)	(32,250)	–	–	–
Interest rate sensitivity gap	44,043	(29,970)	9,572	7,805	–	(31,450)	–
Cumulative gap	44,043	14,073	23,645	31,450	31,450	–	–

There is no material difference between the interest rate risk profile for the Group and that for the Society. The Group is not exposed to foreign currency risk.

The Society does not have any financial assets or liabilities that are offset with the net amount presented in the Statement of Financial Position as FRS102 Section 11.38A requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society. All financial assets and liabilities are presented on a gross basis in the Statement of Financial Position.

The Society has three Credit Support Annexes (CSA) for its derivative instruments which typically provides for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. As at 31 August 2016 a total exchange of collateral of £541k (2015: £171k) has taken place in accordance with the trigger points within the respective CSA. These are included within loans and advances to credit institutions.

31. Explanation of Transition to FRS102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The Group has chosen to apply the recognition and measurement provisions of IAS39 as adopted for use in the EU, utilising the accounting policy choice presented by FRS102 within Sections 11 & 12 covering financial instruments, resulting in recognition and measurement policies consistent with the International Financial Reporting Standards (IFRS) as adopted for use in the EU.

The following disclosures are required in the year of transition. The last financial statements prepared under the previous UK GAAP (Old UK GAAP) were for the year ended 31 August 2015 and the date of transition to FRS102 was therefore 1 September 2014. As a consequence of adopting FRS102, a number of accounting policies have changed to comply with that standard.

In preparing its FRS102 balance sheet, the Group has adjusted amounts reported previously in annual accounts prepared under Old UK GAAP. An explanation of how the transition from Old UK GAAP to FRS102 has affected the Group's financial position is set out in the following tables (and notes that accompany the tables).

Group Income Statements Restated As at 31 August 2015	Notes	Old UK GAAP £000	Adjustments £000	Adopted FRS102 £000
Interest receivable and similar income	C	9,594	(413)	9,181
Interest payable and similar charges		(4,332)	–	(4,332)
Net interest income		5,262	(413)	4,849
Fees and commissions receivable	C	492	(155)	337
Fees and commissions payable	C	(355)	166	(189)
Net gains/(losses) from derivative financial instruments	B	–	(47)	(47)
Total net income		5,399	(449)	4,950
Administrative expenses		(3,613)	–	(3,613)
Depreciation and amortisation		(240)	–	(240)
Other operating charges	C	(348)	330	(18)
Operating profit before impairment losses and provisions		1,198	(119)	1,079
Impairment losses on loans and advances	D	–	141	141
Provisions for contingent liabilities and commitment – FSCS Levy		(180)	–	(180)
Profit on ordinary activities before tax		1,018	22	1,040
Tax on profit on ordinary activities	A	(228)	(4)	(232)
Profit for the financial year		790	18	808

Group Statements of Financial Position Restated As at 31 August 2014	Notes	Old UK GAAP £000	Adjustments £000	Adopted FRS102 £000
Assets				
Liquid assets				
Cash in hand and balances with Bank of England		461	–	461
Treasury bills	A	19,466	(19,466)	–
Loans and advances to credit institutions		17,939	–	17,939
Debt securities	A	41,846	19,416	61,262
Derivative financial instruments	B	–	186	186
Loans and advances to customers:				
Loans fully secured on residential property	B, C, D	272,176	(7,454)	264,722
Other loans		5,747	–	5,747
Prepayments and accrued income	C	606	107	713
Tangible assets	E	3,200	(204)	2,996
Intangible assets	E	–	204	204
Deferred tax assets	F	–	1,400	1,400
Total Assets		361,441	(5,811)	355,630
Liabilities				
Shares		280,713	–	280,713
Amounts owed to credit institutions		12,055	–	12,055
Amounts owed to other customers		38,032	–	38,032
Derivative financial instruments	B	–	145	145
Other liabilities	F	523	(119)	404
Accruals and deferred income	C	354	140	494
Provisions for liabilities – FSCS Levy		305	–	305
Reserves				
General reserves		29,459	(5,936)	23,523
Available For Sale Reserves	A	–	(41)	(41)
Total liabilities		361,441	(5,811)	355,630

Group Statements of Financial Position Restated As at 31 August 2015	Notes	Old UK GAAP £000	Adjustments £000	Adopted FRS102 £000
Assets				
Liquid assets				
Cash in hand and balances with Bank of England		32,836	–	32,836
Treasury bills	A	6,996	(6,996)	–
Loans and advances to credit institutions		9,556	–	9,556
Debt securities	A	34,323	6,963	41,286
Derivative financial instruments	B	–	10	10
Loans and advances to customers:				
Loans fully secured on residential property	B, C, D	281,381	(7,155)	274,226
Other loans		5,336	–	5,336
Prepayments and accrued income	C	491	171	662
Tangible assets	E	3,030	(125)	2,905
Intangible assets	E	–	125	125
Deferred tax assets	F	–	1,393	1,393
Total Assets		373,949	(5,614)	368,335
Liabilities				
Shares		288,711	–	288,711
Amounts owed to credit institutions		14,536	–	14,536
Amounts owed to other customers		39,195	–	39,195
Derivative financial instruments	B	–	288	288
Other liabilities	F	534	(118)	416
Accruals and deferred income	C	441	161	602
Provisions for liabilities – FSCS Levy		283	–	283
Reserves				
General reserves		30,249	(5,918)	24,331
Available For Sale Reserves	A	–	(27)	(27)
Total liabilities		373,949	(5,614)	368,335

Statements of cash flow

The Group's Statements of Cash Flow reflect the presentation requirements of FRS102, which is different to that prepared under FRS1. In addition the statement of cash flow reconciles to cash and cash equivalents, whereas under FRS1 the statement of cash flow reconciled to cash. Cash and cash equivalents are defined in FRS102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand.' The FRS1 definition is more restrictive.

The following were the changes in accounting policies arising from the transition to FRS102:

A. Debt securities

As part of the transition UK Treasury Bills and certificates of deposit have been reclassified as debt securities, these are held at fair market value under IAS39 rather than cost, the gain or loss being held in the 'Available for sale reserves'.

As a part of the transition at 31 August 2014, Treasury Bills totalling £19.5m were reclassified as debt securities. Furthermore debt securities, with an amortised cost value of £61.3m, were revalued to a fair market value of £61.2m. The reduction in value of £50k was disclosed as a charge to the available for sale reserves. Similarly as a part of the restatement as at 31 August 2015, Treasury Bills totalling £6.9m were reclassified as debt securities. The debt securities, with an amortised cost value of £41.3m, were revalued to a fair market value of £41.2m. The reduction in value of £33k was disclosed as a charge to the available for sale reserves.

B. Derivatives

Interest rate swaps are recorded on the balance sheet at fair value and accounted for at fair value through the profit and loss, whereas under UK GAAP these were not held on the balance sheet at the year end. The Society has adopted hedge accounting to reduce volatility in the Income Statement.

The financial impact on transition as at 31 August 2014 was to include within the Statement of Financial Position derivative financial instruments with a positive fair market value of £186k, and negative fair market value of £145k. Mortgages within a hedged relationship were adjusted by £9k to reflect their fair market value. The net impact of the transitional adjustment was a £32k increase in reserves. The financial impact on the restatement as at 31 August 2015 was to include within the Statement of Financial Position derivative financial instruments with a positive fair market value of £10k and negative fair market value of £288k. Mortgages within a matched relationship were adjusted by £262k to reflect their fair market value. The net impact of the restatement was a £16k increase in reserves.

C. Effective Interest Rate

This is the impact of adjusting interest income such that it is based on the effective interest rate as stated in Note 1, part of this adjustment is to transfer that element of deferred fees that were held in 'Accruals and deferred income' under UK GAAP into 'Loans and advances'.

The financial impact on transition as at 31 August 2014 was an increase in mortgage assets of £31k in respect of interest receivable; prepayments increased by £107k in respect of fees payable, and deferred income by £140k in respect of fees receivable. Reserves were increased by a net £2k. The financial impact on the restatement as at 31 August 2015 was an increase in mortgage assets of £59k in respect of interest receivable; prepayments increased by £171k in respect of fees payable, and deferred income by £161k in respect of fees receivable. Reserves were increased by a net £69k.

D. Loss provision reclassification

Under UK GAAP provisions were split into 'specific and general provisions'. These have been changed to the IAS39 concept of 'individual and collective impairment provision'. The calculation of the collective provision is explained in Note 1. As part of the transition to FRS102 the Group has assessed the individual and collective provisions for prior year, which have been restated accordingly. Individually identified impairment provisions have increased by £7.5m as a result of discounting future cash flows at the original effective interest rate on the mortgage asset rather than the Society's cost of capital as at the Statements of Financial Position date.

E. Intangible assets

FRS102 requires recognition of software and development costs as intangible assets. These were previously classified as tangible assets under UK GAAP. Such costs have been reclassified to intangible assets with corresponding depreciation having been reclassified as amortization.

F. Deferred tax

Under FRS102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. Consequently deferred tax has been recognised on all fair value remeasurements and on all fair value adjustments arising from the transition. As a consequence of the increase on transition in the individually impaired mortgage provision, the Society has recognised a deferred tax asset of £1.4m on transition.

Annual Business Statement

For the year ended 31 August 2016

1. STATUTORY PERCENTAGES

	Percentages at %	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	2.08	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'funding limit')	11.58	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Buildings Societies Act 1997.

Business assets are the total assets of the Group as shown in the balance sheet plus provisions for bad and doubtful debts, 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 balance sheet plus provisions for bad and doubtful debts.

2. OTHER PERCENTAGES

	Ratio at	
	31 August 2016 %	*31 August 2015* *%*
Gross capital as a percentage of shares and borrowings	7.12	*7.10*
Free capital as a percentage of shares and borrowings	6.35	*6.26*
Liquid assets as a percentage of shares and borrowings	23.39	*24.44*
As a percentage of mean assets:		
Profit after taxation	0.19	*0.22*
Management expenses	1.10	*1.06*
Cost/income	82.25	*78.12*

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents general reserves.
- 'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less 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 and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.
- 'Cost/income' represents the aggregate of administration expenses, depreciation and amortisation expressed as a percentage of total income less other operating charges.

3. INFORMATION RELATING TO THE DIRECTORS AT 31 AUGUST 2016

Name	Occupation	Date of Birth	Date of Appointment	Directorships
P. R. Dearing BEd (Hons), FCIB	Consultant	18.2.1950	1.10.2009	Hanley Financial Services Ltd Hanley Mortgage Services Ltd Waterloo Housing Group De Montfort Housing Society Ltd Acclaim Housing Ltd Dales Housing Ltd Seven Locks Housing Ltd The Dynamic Boardroom Ltd
F. B. Earley BSc, MSc	Economist	12.10.1964	1.9.2013	–
S. Jones BSc (Hons), FCA, MBA	Society's Deputy Chief Executive, Finance Director & Group Secretary	6.12.1962	1.5.2004	Wulvern Housing Ltd Newcastle under Lyme College Hanley Financial Services Ltd Hanley Mortgage Services Ltd
A. S. Macdonald	Consultant	20.10.1954	1.9.2014	Sempre Ski Ltd Non-Newtonian Hospitality Ltd
V. Oak	Director	13.11.1961	1.3.2015	Chesnara plc Countrywide Assured Ltd Investment and Life Assurance Group Ltd Sanlam UK Ltd Sanlam Investment Holdings UK Ltd Hanley Financial Services Ltd Hanley Mortgage Services Ltd
D. Webster BA (Hons), DUniv	Society's Chief Executive	9.6.1959	14.1.2002	Hanley Financial Services Ltd Hanley Mortgage Services Ltd
S. Woodings	Company Director and Consultant Solicitor	15.9.1966	1.4.2016	Argus Fire Protection Company Ltd Slademain Ltd

Documents may be served on the above named Directors c/o PricewaterhouseCoopers LLP, 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW.

SERVICE CONTRACTS

Mr S. Jones is employed under a contract that is terminable by the Society on one year's notice or the Director on six months' notice.

4. OFFICERS

Name	Occupation	Directorships
C. Hammond	Human Resources Manager	Potteries Powder Coating Ltd
D. Lownds BSc (Hons)	Head of Operations	–
V. Thackstone	Head of Risk & Compliance	–

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.

As a mutual organisation, The Hanley's primary focus is its members and it aims to provide mortgage, savings and insurance products supported by excellent customer service. Additionally, The Hanley offers financial advice through its subsidiary Hanley Financial Services Limited. The consolidated financial statements of the Group include the audited results of the Society and its subsidiary undertakings.

Details of the consolidated entities and their principal activities are detailed in Note 16 to the Annual Report and Accounts. All of the consolidated entities were incorporated in the United Kingdom.

For the year ended 31 August 2016:

The Hanley Economic Building Society's annual accounts report:

- Group total operating income was £5.1m (2015: £5.0m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable).
- Profit before tax was £1.1m (2015: £1.0m), all of which arising from UK-based activity.
- The average number of Group full time equivalent employees was 56, (2015: 59) all of which were employed in the UK.
- Corporation tax of £0.2m was paid in the year and is all within the UK tax jurisdiction.
- No public subsidies were received in the year.

Independent auditors' report to the Directors of the Hanley Economic Building Society

We have audited the accompanying schedule above of the Hanley Economic Building Society for the year ended 31 August 2016 (the schedule). The schedule has been prepared by the directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors' Responsibility for the schedule

The Directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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

Opinion

In our opinion, the Country-by-Country information in the schedule as at 31 August 2016 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to the schedule, which describes the basis of preparation. The schedule is prepared to assist the Directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the Directors of the Hanley Economic Building Society. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
21 October 2016

Staff

The Board would like to thank all the staff for their continued hard work and dedication to The Hanley.

Branches

Head of Branches	Tracy-Ann Ratcliffe
Biddulph	Deb Ward, Amelia Bolderson, Andrew Parsons, Emma Dawson, Mark Cooper
Festival Park	Julie Barlow, Cathryn Dudley, Karen Holt, Kate McKeon
Hanley	Mark Wilson, Jill Thomasson, Joanne Hield, Olivia Jones, Sherry Phillips, Emma Wootton, Ellie Davies
Longton	Anna Whitehead, Marcus Bailey, Rachel Ecclestone, Sue King, Emma Gazey, Holly Hopwood
Newcastle	Richard Finney, Emma Hancock, Kayleigh Brittain, Tom Ward
Stone	Charmaine Cameron-Reale, Julie Harvey, Lindsey Plant, Sue Wilkinson
Cheadle Agency	Mark Watson
Advisory Services	Neil Clappison, David Brown, Alastair Dunning

Head Office

Risk & Compliance	Debbie Holmes, Sarah Brundrett, Emma Clowes
Customer Services	Nicola Wilson, Dan Rockey, Gail Wood, Gemma Collyer, Joanne Cooper, Lauren Ainsworth, Rachel Edge, Rob Brittain
Finance	Larne Barlow, Jack Tatton, Janet Thorley, Helena Tabasum, Phil Tyler
HR	Angela Finney, John Hollins
IT	Ian Stone, Jason Smith, Joanne Cartlidge, Matt Nelson
Marketing & Business Development	Rob Hassall, Sue Pedley
PA to the CEO	Joy Nicholls
Underwriting	Jill Condliffe, Alison Shaw, Giovanni Neglia, Laura Marshall, Louise McGuinness, Lucy Olszewski

Head Office: Granville House, Festival Park, Hanley, Stoke-on-Trent, Staffordshire ST1 5TB
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Branches at Biddulph, Cheadle, Festival Park, Longton, Newcastle, Stone and Hanley City Centre

THE HANLEY ECONOMIC Building Society

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