# MEMBERS' REVIEW

& Summary Financial Statement 2020

**Make your vote count**
See inside for details

Always with your interest at heart

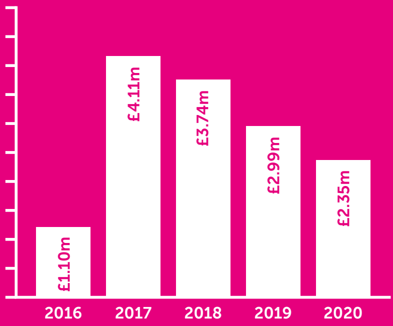
Furness
BUILDING SOCIETY

# CONTENTS

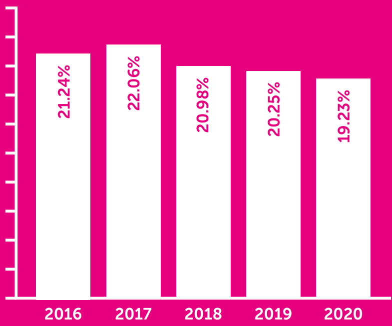
# PERFORMANCE SUMMARY

## Financial Strength

Profit before tax

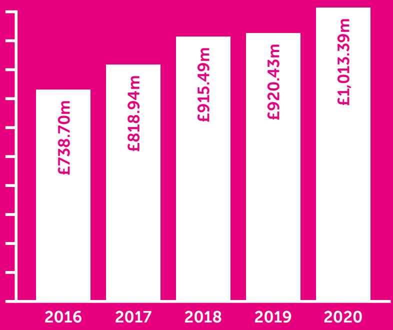



Total Capital Ratio

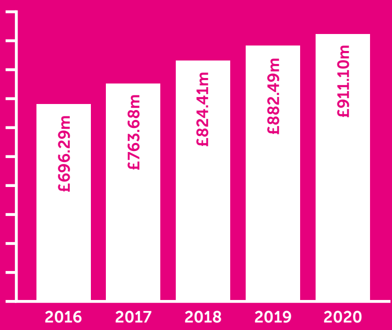



## Business Summary

Retail Share and Deposit Balances




Mortgage Balances



# Welcome from our Chief Executive

Dear Member,

Let me begin by sending sincere regards to all our members after what has been an incredibly difficult year for everybody.

There are very few of us who haven't been impacted by the coronavirus crisis, whether personally or professionally, and here at Furness, we are still doing our absolute utmost to provide you with straightforward access to your savings and our mortgage products.

A big thank you to all my colleagues for their efforts to ensure our branch network remained open and vulnerable members were identified so that specialist customer service could be provided. We also bolstered our online and remote services in order to better reflect your changing needs.

As mortgage payment deferrals supported those of you requiring short-term financial relief, we also offered residents in our heartland a high loan-to-value (LTV) mortgage product so that our members who could afford to take a new mortgage were still able to do so.

The Bank of England base rate is now the lowest it has been for more than 300 years and we've passed on all those rate cuts to those mortgage members with relevant products. Equally, we've also done our best to ensure that our savers receive competitive savings rates.

In the remarkable year which also saw us reach the end of the Brexit transitional period on 31 December 2020, we've also continued to support local charities, community groups and food banks. This includes £198,000 in affinity accounts payments on your behalf, of which £73,000 was awarded to St Mary's Hospice in Ulverston.

And despite this year of continuous and unprecedented change, we've continued our commitment to offer our people an enjoyable and rewarding place to work in order to build a stronger Society for our members' benefit. This modernisation programme has seen us accelerate our planned digital investment and you'll see the results of that in our new website very soon.

The past year has tested us all in a manner and scale we haven't experienced before. At Furness, we've had to adapt quickly and frequently but we've delivered a solid performance for you, our members, and this places us well for the year ahead.

**We are still doing our absolute utmost to provide you with straightforward access to your savings and our mortgage products.**

# Make your vote count

Please let me invite you to register your vote ahead of our Annual General Meeting (AGM) on Tuesday 20 April 2021. As in 2020, we'll be following government guidelines to keep you and our people safe. It's highly unlikely that we will be able to invite you to attend in person but please keep an eye on our website for any further developments.

I encourage you to take the time to look at the information contained in this pack and use your vote to influence the important decisions that will be made at our AGM. We recommend you vote for all of our Directors to be re-elected to the Board.

Vote online at **www.cesvotes.com/furness21**, by post or at a branch. To guarantee we receive your vote, the online facility is the quickest and easiest to use. For every vote received, we'll donate 50p to Barrow Food Bank.

In the meantime, if you have any queries about the AGM or would like to ask us a question by proxy, we'd love to hear from you. Please email our Group Secretary, Pamela Mawson at **pamela.mawson@furness-bs.co.uk** and we will respond as soon as possible.

It was and continues to be an extremely challenging time for all of us and I'd like to thank you for your continued support and commitment as a valued member.

Yours faithfully,

*Chris Harrison*

**Chris Harrison**
Chief Executive

# DIRECTORS' REPORT

The Financial Statement is a summary of the information the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge, on demand, and on the website from 20 March 2021. The Board is pleased to present the 155th Directors' Report for the year ended 31 December 2020.

## Strategic Review

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

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

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

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

# Business Review

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

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

## Net Interest Margin

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

## Other income and charges

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

## Management expenses

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

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

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

## Impairment charges

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

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

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

## Arrears management

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

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

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

## Profit

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

## Capital

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

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

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

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

## Assets

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

## Liquidity

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

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

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

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

## Going concern and long-term viability

We've considered the potential economic ramifications of the crisis on our current and future obligations and the Society's prospects over the 12 months from the date when the financial statements are authorised for issue. Our Corporate Plan period is three years to 2023 and is used to support both going concern and longer term viability assessments.

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

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

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

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

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

Our liquid assets and liquid assets ratio have grown year-on-year in 2020 which is due to our efforts to support our savings members with the best savings rates available during a period of economic constrictions and changes to the Bank of England's Term Funding Scheme.

## Post year-end events

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

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

## Supplier payment policy

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

## Donations

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

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

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

## Directors

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

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

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

Directors who served during 2020 are listed on page 27. None of the directors had an interest in the shares or debentures of any associated body of the Society at any time during the financial year.

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

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


## Disclosure of information to the auditor

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

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

## Appointment of the auditor

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

## Pillar 3 disclosures

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

# Risk Review
## Managing & mitigating risk

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

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

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

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

### Strategic Risk

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

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

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

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

### Credit risk

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

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

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

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

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

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

## Liquidity and funding risk

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

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

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

The Board-approved Internal Liquidity Adequacy Assessment (ILAAP) sets out the framework of risk management for the liquidity risks under both normal and stress conditions. Liquidity and funding is monitored by the Assets and Liabilities Committee (ALCO) on a regular basis.

## Basis risk

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

## Margin risk

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

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

## Operational risk (including COVID-19 pandemic impact)

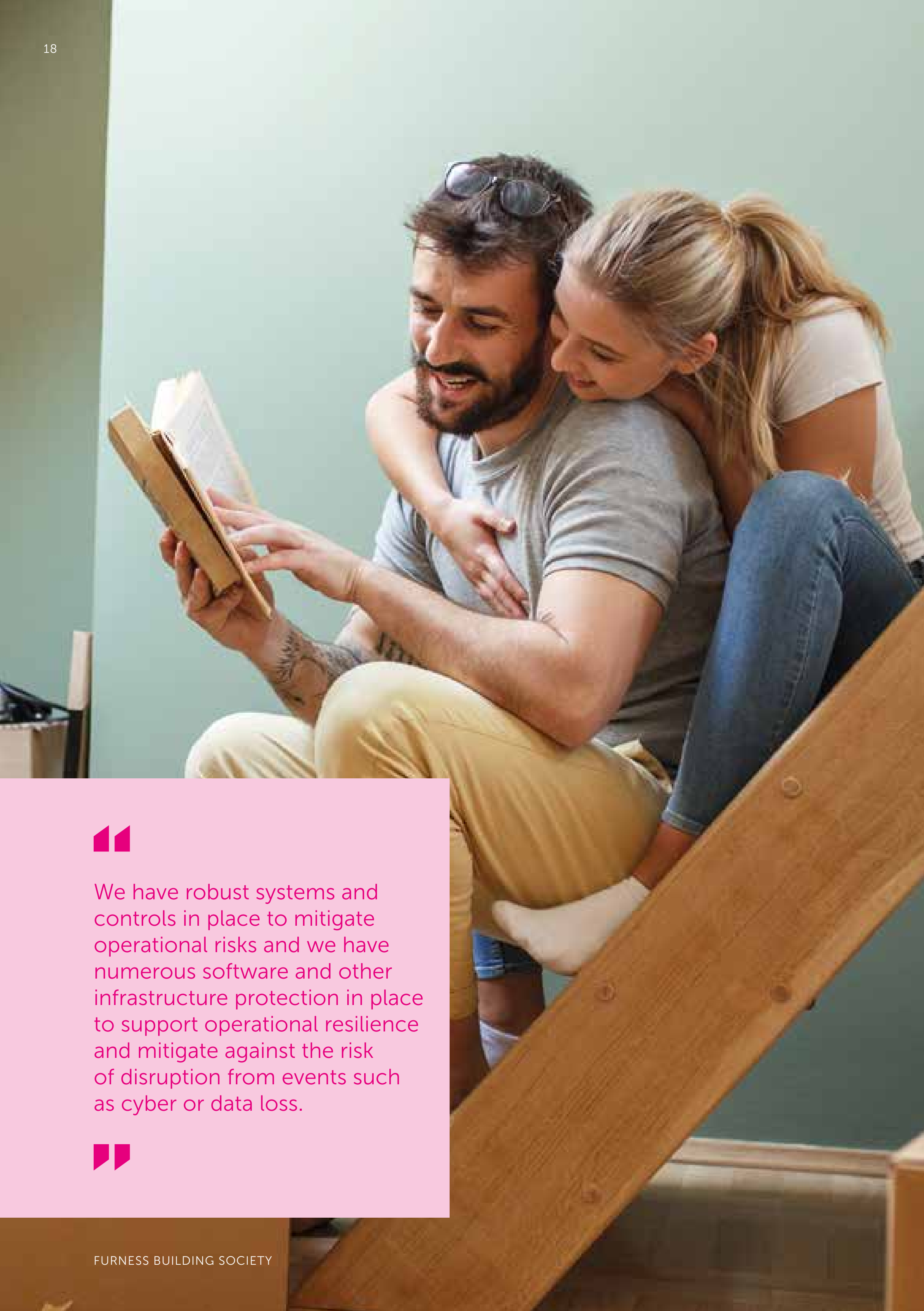
Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events, and can arise across the whole business, with higher likelihood as we go through transformational change or other large projects.

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

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

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

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



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

## Legal and regulatory risk

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

## Conduct risk

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

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

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

## Cyber security risk

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

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

## Pension liabilities

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

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

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

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

### Market environment risk (including Brexit and Covid-19)

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

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

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

### Climate change risk

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

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

> **We support our Defined Benefit Pension Scheme and are keen to ensure the funding and governance of the Scheme is well managed.**

# Our People and Members

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

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

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

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

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

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

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

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

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

**Our teams have gone above and beyond for the benefit of our future and the safeguarding of our members.**

# **The Year** Ahead

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

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

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

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

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

**Approved by the Board of Directors on 15 March 2021.**

# DIRECTORS' REMUNERATION REPORT

## Our Remuneration Policy
## Attracting, retaining and remunerating talent

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

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

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

## Executive and Non-Executive remuneration

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

Summaries of the 2020 remuneration elements and packages are shown on page 26.

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

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

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

## Executive and senior leadership bonus scheme for 2020

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

The measures contained in the bonus structure are:

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

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

## Consulting our members

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

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

# Summary of Executive Remuneration 2020

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

## Executive Directors Fees

| 2020 | Salary | Discretionary Staff Award / Bonus | Taxable Benefits | Sub Total | Defined Contribution Scheme | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| C M Harrison | 219,914 | 1,000 | 17,643 | 238,557 | – | **238,557** |
| C O'Donnell | 159,650 | 1,000 | 8,102 | 168,752 | 15,965 | **184,717** |
| S J Heron | 106,760 | 1,000 | 9,875 | 117,635 | 10,676 | **128,311** |
| **Total** | **486,324** | **3,000** | **35,620** | **524,944** | **26,641** | **551,585** |

| **2019** | | | | | | |
|---|---|---|---|---|---|---|
| C M Harrison | 212,477 | 72,242 | 17,635 | 302,354 | – | **302,354** |
| M J Dobson[1] | 161,657 | – | 7,968 | 169,625 | 22,905 | **192,530** |
| C O'Donnell[2] | 77,500 | 26,567 | 3,750 | 107,817 | 7,750 | **115,567** |
| S J Heron | 103,150 | 35,071 | 9,875 | 148,096 | 10,315 | **158,411** |
| **Total** | **554,784** | **133,880** | **39,228** | **727,892** | **40,970** | **768,862** |

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

## Non-Executive Directors Fees

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

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

**K L Rebecchi**
Chairman of the Remuneration Committee
15 March 2021

# TEAM BIOGRAPHIES

## Board of Directors and other officers

### Graham Berville

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

Key roles:
Chairman
Chairman of Nomination Committee

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

### Chris Harrison

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

Key roles:

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

### Kim Rebecchi

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

Key roles:

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

Wider commitments:

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

## Nic Gower

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

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

Wider commitments:
Director of the Manchester University NHS Foundation Trust

## Phillip McLelland

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

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

Wider commitments:
Finance Director of Calisen plc.

## Andy Haywood

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

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

Wider commitments:
Chief Information Officer for Yorkshire Water

## Peter Rogerson

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

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

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

## Conrad O'Donnell

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

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

## Sue Heron

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

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

## Pam Mawson

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

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

## Keith Bevan

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

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

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

**Securing your future,**
supporting your dreams.

# INDEPENDENT AUDITOR'S STATEMENT

## Independent Auditor's statement to the Members and Depositors of Furness Building Society

We have examined the Summary Financial Statement of Furness Building Society set out on pages 34 to 35.

### Respective responsibilities of directors and auditor

The Directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

### Basis of opinion

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts included in the Summary Financial Statement to the corresponding items within the full Annual Accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2020;
- Checking that the format and content of the Summary Financial Statement is consistent with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether information has been omitted which although not specifically prescribed by Section 76 of the Building Societies Act 1986 and regulations made under it, in our opinion, is necessary to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2020.

We also read the other information contained in the Members' Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Members' Review. Our report on the Society's full Annual Accounts describes the basis of our opinions on those Annual Accounts, the Annual Business Statement and Directors' Report.

## Opinion on summary financial statement

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of Furness Building Society for the year ended 31 December 2020 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

## Use of the statement

This statement is made solely to the Society's members and depositors as a body in accordance with Section 76(5) of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body for our audit work, for this statement, or for the opinions we have formed.

Mazars LLP
Chartered Accountants and Statutory Auditor
One St Peter's Square
Manchester
M2 3DE

15 March 2021

# NOTICE OF ANNUAL GENERAL MEETING 2021

Notice is given that the 155th Annual General Meeting (AGM) of the members of the Furness Building Society will be held on **Tuesday, 20 April 2021** at Furness Building Society, Emlyn Hughes House, Abbey Road, Barrow in Furness, LA14 5PQ at **5.00pm** for the following purposes:

1. To receive Chairman's opening remarks.
2. To receive the Auditor's Report for the year ended 31 December 2020.
3. To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 December 2020.
4. To consider, and if thought fit, pass an Ordinary Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2020.
5. To consider, and if thought fit, pass an Ordinary Resolution to re-appoint Mazars LLP as Auditor.
6. To consider, and if thought fit, to re-elect the following as a Director:
   (a) To re-elect G M Berville as a Director
   (b) To re-elect C M Harrison as a Director
   (c) To re-elect K L Rebecchi as a Director
   (d) To re-elect N J Gower as a Director
   (e) To re-elect P A McLelland as a Director
   (f) To re-elect A P Haywood as a Director
   (g) To re-elect P D Rogerson as a Director
   (h) To re-elect C O'Donnell as a Director
   (i) To re-elect S J Heron as a Director.

## Voting Conditions

1. These Notes form part of the Notice of Meeting.

2. You may either vote in person at the Meeting, if attendance is permitted, or you may use the voting form to appoint a representative to attend and vote for you as you direct. You may appoint the Chairman of the Meeting or anyone else as your representative, they do not have to be a member of the Society. Your representative may vote for you at the Meeting on a written poll but not on a show of hands.

3. The final voting date is:

a) the 16 April 2021 if you are posting your voting form at a branch

b) the 17 April 2021 if you are posting the voting form using the prepaid envelope or voting online, or

c) the 20 April 2021 if you vote in person at the Meeting and if attendance is permitted.

4. You are entitled to vote if you are at least 18 years old on 20 April 2021 and you are the first named account holder in our records. You must also either:

a) have had at least £100 in your share account on 31 December 2020, and continue to have a share account with the Society at all times between 31 December 2020 and the voting date.

b) have owed the Society not less than £100 on your mortgage loan(s) on 31 December 2020 and on the voting date.

5. No matter how many share or mortgage accounts you have, in any capacity, you are only entitled to vote once on each resolution. If you vote online and subsequently change your mind you are able to vote again using the same proxy number and your last vote will be counted.

If you submit a postal vote and submit an on-line vote then the last vote received by the scrutineer will be counted.

6. Members attending the Meeting will be requested to produce their passbooks or other evidence of membership in order to obtain admission. If you have appointed a representative, please ensure that they bring an appropriate form of identification to the Meeting.

7. If you appoint a representative to vote on your behalf and your representative does not attend the Meeting, your vote will not be counted.

8. Please remember to sign the declaration on the voting form as only signed forms will be valid.

9. A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for and against the resolution.

# SUMMARY FINANCIAL STATEMENTS

## Summary Statements

| Group Results for year | 2020 £000 | 2019 £000 |
|---|---|---|
| Net interest income | **15,693** | 15,763 |
| Other income and charges | **(496)** | (386) |
| Fair value loss | **(112)** | (337) |
| Administrative expenses | **(12,428)** | (12,338) |
| **Operating profit before provisions and tax** | **2,657** | 2,702 |
| Impairment (charge)/credit | **(305)** | 258 |
| **Operating profit before provisions** | **2,352** | 2,960 |
| Provisions for liabilities | **(3)** | 25 |
| **Profit on ordinary activities before tax** | **2,349** | 2,985 |
| Taxation | **(423)** | (565) |
| **Profit for the financial year** | **1,926** | 2,420 |

| Group Financial Position at the Year-End 2020 | 2020 £000 | 2019 £000 |
|---|---|---|
| **Assets** | | |
| Liquid assets | **184,817** | 115,987 |
| Derivative financial instruments | **273** | 337 |
| Mortgages | **911,103** | 882,492 |
| Fixed and other assets | **4,492** | 4,995 |
| **Total assets** | **1,100,685** | 1,003,811 |
| | | |
| **Liabilities** | | |
| Shares | **849,463** | 758,320 |
| Borrowings | **163,928** | 162,114 |
| Derivative financial instruments | **3,294** | 947 |
| Other liabilities | **2,312** | 2,402 |
| Net pension liabilities | **5,684** | 3,575 |
| Subordinated liabilities | **4,993** | 4,989 |
| Reserves | **71,011** | 71,464 |
| **Total liabilities** | **1,100,685** | 1,003,811 |

**Approved by the Board of Directors on 15 March 2021 and signed on its behalf by:**
G M Berville, Chairman | K L Rebecchi, Vice-Chairman | C M Harrison, Chief Executive

## Summary of Key Financial Ratios

| Summary of Key Financial Ratios 2020 | 2020 % | 2019 % |
|---|---|---|
| Gross capital as a percentage of shares and borrowings[1] | 7.50 | 8.31 |
| Liquid assets as a percentage of shares and borrowings[2] | 18.24 | 12.60 |
| Profit for the year as a percentage of mean total assets[3] | 0.18 | 0.24 |
| Management expenses as a percentage of mean total assets[4] | 1.18 | 1.23 |

| | | |
|---|---|---|
| Profit after tax (£m) | 1.93 | 2.42 |
| Retail share and deposit balances (£m) | 1,013.39 | 920.43 |
| Mortgage balances (£m) | 911.10 | 882.49 |

**Notes**

1. The gross capital ratio measures the proportion that capital bears to shares and borrowings. Gross capital constitutes the reserves and subordinated liabilities shown in the Statement of Financial Position and includes the profits accumulated since the Society's formation in 1865. Capital reserves are financial resources owned by members and are liabilities which are not repayable. Capital provides a financial cushion against possible adverse market conditions in the future and therefore protects members and investors.

2. The liquid assets ratio measures the proportion of the Group's shares and borrowings which are held in the form of cash, short term deposits and securities which can be readily converted into cash. Liquid assets are maintained at a level which enables the Group to meet requests from investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business.

3. This ratio measures the proportion which profit after taxation for the year bears to the average balance of total assets during the year. The ratio is similar to a company's return on assets. The Group needs to make a reasonable profit each year in order to maintain its capital ratios at a suitable level to protect investors.

4. The ratio of management expenses as a percentage of mean total assets measures the proportion which administrative expenses (which include depreciation and amortisation) bear to the average balance of total assets during the year.

Furness BUILDING SOCIETY

## Pop into a branch

These are staffed by people from your community.
Branches offer a full service.


HEAD OFFICE

Emlyn Hughes House, Abbey Road, Barrow-in-Furness, Cumbria LA14 5PQ.

Telephone: (01229) 824560 Fax: (01229) 837043
E-mail: ask@furness-bs.co.uk


BRANCH OFFICES

**Barrow-in-Furness**
51-55 Duke Street, LA14 1RT,
Telephone: 01229 824560.

**Dalton-in-Furness**
84 Market Street, LA15 8DJ.
Telephone: 01229 466685.

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

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

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

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

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

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

**Ulverston**
20 New Market Street,
LA12 7LN.
Telephone: 01229 582924.

## Call Furness Direct on 0800 834 312

A professional and personal service that's just like having a branch at the end of the phone.

## Go to our website www.furnessbs.co.uk

Like us on Facebook: @furnessbuildingsociety