

## MEMBERS' UPDATE 2017

*Incorporating Notice of AGM,  
voting information and  
Summary Financial Statement*



# FIRST CHOICE

OUR MISSION IS TO BE THE FIRST CHOICE FOR FAMILIES' MORTGAGES AND SAVINGS. WE BELIEVE THAT FAMILIES WHO WORK TOGETHER ACROSS THE GENERATIONS DESERVE SAVINGS AND MORTGAGE CHOICES THAT ARE BACKED BY EXCELLENT, PERSONAL SERVICE AND INNOVATIVE PRODUCTS.

That's why we are particularly pleased that some of the UK's leading mortgage and savings publications and websites have recognised our efforts across 2017.

At the **What Mortgage Awards** in July 2017 the Society was voted the 'Best Guarantor/ Assisted Mortgage Lender', and was highly commended in the 'Best Lender Website' and 'Best Offset Mortgage Lender' categories.

In November 2017, the leading mortgage trade magazine **Mortgage Finance Gazette** and its panel of leading industry figures awarded the Society the award for 'Product Innovation – Medium to Large Lenders' for our Retirement Lifestyle Booster.

In addition, in May 2017 the Society was voted 'Highly Commended' by a panel of mortgage brokers in the 'Best lender for first time buyers (with family support)' category in the **Moneywise Mortgage Awards 2017** for the Family Mortgage.

Finally in June 2017, the UK's leading provider of savings account data, **Moneyfacts** awarded the Society 'Commended' in the 'Best Building Society Savings Provider' category.



# A MESSAGE FROM YOUR CHAIRMAN

**THIS YEAR'S ANNUAL GENERAL MEETING ('AGM') WILL BE HELD AT 2PM ON TUESDAY 24 APRIL 2018 AT THE QUEEN'S STAND, EPSOM DOWNS RACECOURSE, EPSOM DOWNS, SURREY KT18 5LQ.**



**RODGER HUGHES**

The formal notice of the meeting is on page 4 of this booklet and further information about the resolutions to be considered at the AGM can be found on pages 5 and 6. All the information you need to vote on the resolutions is included in this booklet and in the personalised Appointment of a Proxy and Voting Form which accompanies it.

You can vote online or by post. As online voting costs us less, we will again donate 25p to the Royal Marsden Cancer Charity for each online vote.

## DIRECTORS

You will see that two of the Board members are seeking re-election this year. John Howard the Senior Independent Director and Chris Croft, the Society Secretary, are required to stand by rotation under the Society's Rules.

The Summary Financial Statement in this booklet contains information on our activities and performance during 2017. It has been another year of successful innovation and growth for your Society, with assets now exceeding £2 billion and member satisfaction at record levels.

I look forward to meeting those members who can attend the AGM and thank you all for your support.

**Rodger Hughes**  
Chairman

# NOTICE OF AGM

**NOTICE IS HEREBY GIVEN THAT THE 2018 AGM OF NATIONAL COUNTIES BUILDING SOCIETY WILL BE HELD AT THE QUEEN'S STAND, EPSOM DOWNS RACECOURSE, EPSOM DOWNS, SURREY KT18 5LQ ON TUESDAY 24 APRIL 2018 AT 2PM FOR THE FOLLOWING PURPOSES:**

1. To receive the **Directors' Report, Annual Accounts, Annual Business Statement and Auditor's Report** for the year ended 31 December 2017.
2. To re-appoint **KPMG LLP** as auditor of the Society.
3. To approve the **Report on Directors' Remuneration**.
4. To re-elect **Mr John Henry Howard** as a Director of the Society.
5. To re-elect **Mr Christopher Rendell Croft** as a Director of the Society.

By order of the Board: Christopher Rendell Croft, Secretary,  
National Counties Building Society.

Date: 28 February 2018

## NOTES

1. These Notes form part of the Notice of AGM above.
2. A member entitled to attend and vote at the AGM may appoint one proxy to attend and, on a poll, vote at the meeting instead of him/her. The proxy may be the Chairman of the meeting or anyone else who need not be a member of the Society. The member may direct the proxy how to vote at the meeting. Your proxy may vote for you at the meeting but only on a poll. Your proxy may not speak at the meeting, except to demand or join in demanding a poll.
3. Voting conditions are contained in the Society's Rule 36 and are summarised on the reverse of the enclosed Voting Form. A copy of the Rules is available upon request to the Society.
4. Admission to the meeting will be permitted on production of the member's passbook, other evidence of membership issued by the Society or, in the case of appointed proxies, an appropriate form of identification.

## EXPLANATORY NOTES ON RESOLUTIONS

### AT THE SOCIETY'S AGM

We hope to see as many of our members as possible at the Society's AGM but if you are unable to attend in person you are invited to participate in the business conducted using the enclosed personalised Appointment of a Proxy and Voting Form. The reverse of that document contains details in relation to voting eligibility and guidance in respect of online and postal voting.

An important element of the constitution of building societies is the reporting to members by the Auditor and Directors and these are covered by the first item on the meeting agenda. The Auditor's Report sets out what they have examined and the view they have formed regarding the information disclosed by Directors. The Directors' Report, Annual Accounts and Annual Business Statement provide a great deal of information concerning the financial position of the Society and the Group. A summary of the full Report and Accounts, the Summary Financial Statement, forms part of this document. Members wishing to see the full version of the Report and Accounts may do so on request to the Society or via our website ([ncbs.co.uk](http://ncbs.co.uk)) from 16 March 2018 onwards. **Members are invited to vote in respect of the Directors' Report, Annual Accounts and Annual Business Statement, and the Board recommends that you vote "FOR" their formal receipt.**

Item two on the agenda is a resolution to re-appoint KPMG LLP as auditor of the Society. KPMG were first appointed to the Society's audit in 2005. They are acknowledged to be one of the leading accountancy firms in the world, with many clients in the financial services industry, including other building societies. The team responsible for the Society's audit is able to draw on the resources and experience expected of a large firm to ensure the quality and efficiency of the work undertaken.

Independence of the audit is maintained through periodic rotation of the staff and manager as well as the partner responsible. **After a competitive tender in November 2016, your Board has decided to put KPMG LLP forward to be re-appointed as auditor and has no hesitation in recommending that you vote "FOR" their re-appointment.**

The third item on the agenda is a resolution to approve the Report on Directors' Remuneration. The background to this lies in the UK Corporate Governance Code. Although this Code applies to listed companies, the Board believes that the Society should, where relevant, have regard to its principles and provisions. An advisory vote on the Report on Directors' Remuneration is part of the Code and the Society has decided to include this on the agenda for its AGM. **The Report follows these explanatory notes and you are invited to vote "FOR" its approval.**

Items four and five on the agenda cover the re-election of previously elected Directors. Both Directors are obliged to resign in accordance with the Society's Rules and, being eligible, are standing for re-election in respect of the two vacancies created. Brief personal details of each Director are provided on page 14 of this booklet. Both bring different but complementary skills and experience to the Board, ensuring that its overall composition is appropriate for the range of activities undertaken by the

Society. **Your Board strongly recommends that you use the two votes available to you to vote "FOR" both of them as Directors of the Society.**

**Should you have any queries about the business to be conducted at the AGM, please do not hesitate to contact the Society's Customer Service Team on our dedicated number for AGM enquiries – 03300 244619.**

## RINGFENCING

Following the 2008 financial crisis, the UK government put reforms into place for banks to separate corporate and private customers. This is known as 'ring-fencing'. This means that our sort code and account numbers have changed because, as a financial institution, our clearing bank has moved the Society to their corporate division.

As a result, we have been issued with a new account number and sort code:

### OUR NEW BANK ACCOUNT DETAILS ARE:

New sort code: **40-02-50**    New account number: **21397400**

More information can be found on our website: [familybuildingsociety.co.uk/ringfence](http://familybuildingsociety.co.uk/ringfence)

# REPORT ON DIRECTORS' REMUNERATION

**THIS REPORT ILLUSTRATES HOW THE SOCIETY HAS REGARDED TO THE PRINCIPLES SET OUT IN THE UK CORPORATE GOVERNANCE CODE 2016 RELATING TO DIRECTORS' REMUNERATION.**

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of the Financial Conduct Authority's Remuneration Code. This Policy is reviewed periodically by the Remuneration Committee. It was reviewed by the Committee in April 2017. The Committee wished to enable members to understand more about how remuneration is decided and the Policy Statement is published on the Society's website. The remuneration details of individual Directors are set out on page 11.



## THE LEVEL AND COMPONENTS OF EXECUTIVE DIRECTOR REMUNERATION

**CODE PRINCIPLE D.1:** EXECUTIVE DIRECTORS' REMUNERATION SHOULD BE DESIGNED TO PROMOTE THE LONG-TERM SUCCESS OF THE COMPANY. PERFORMANCE-RELATED ELEMENTS SHOULD BE TRANSPARENT, STRETCHING AND RIGOROUSLY APPLIED.

### SOCIETY'S APPROACH

As set out in its Remuneration Policy Statement, the primary objective of the Society is to operate for the financial benefit of its members and not for the disproportionate financial benefit of any of its employees.

However, the Board also believes that employees should be fairly rewarded for their efforts. The aim of the Society's Remuneration Policy is therefore to achieve a fair level of financial reward for the Society's staff whilst ensuring primacy of members' interests and avoiding incentives to take inappropriate levels of risk. Against this background the objectives of the Remuneration Policy include the following:

- ***To attract and retain staff with the appropriate skills, attitude and motivation.***
- ***To reward staff fairly, paying due regard to the statutory duties of equality and non-discrimination.***

- ***To benchmark salaries and benefits against prevailing industry/sector/role norms.***
- ***To take account of prevailing economic and employment trends.***
- ***To prevent inappropriate risk-taking with the potential to damage the interests of the Society's stakeholders and the viability of the business.***

In line with the Board's approach, which reflects that adopted within other comparable organisations, the Society's remuneration policy provides for the reward of Executive Directors through salaries and other benefits. The overall remuneration of the Executive Directors was reviewed in 2017 following the expiry of the incentive plan introduced in 2014.

## EXECUTIVE DIRECTORS' EMOLUMENTS

The remuneration for Executive Directors reflects their responsibilities. It comprises basic salary, performance related variable pay and various benefits detailed below. Performance-related payments are not pensionable. The Society has no share option scheme and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of any connected undertaking of the Society.

As with staff generally, whose salaries are now subject to annual reviews, basic salaries payable to Executive Directors are



reviewed periodically with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Society's geographical position. As part of the overall review Executive Directors' salaries were revised in 2017 to reflect market changes, inflation and the revised terms of the Medium Term Incentive Plan. The salaries of staff beneath the level of Executive Director were reviewed in April 2017, taking account of externally compiled data relating to pay awards across the economy and the prevailing employment dynamics. This resulted in a cost of living rise for most staff equating to 3% of salaries, plus in a number of cases, adjustments to allow for anomalies arising from market conditions and promotions. The salary uplift for relevant staff was brought into effect from 1 May 2017. The Executive Directors were eligible to participate in an incentive scheme based upon both individual performance and that of the Society. The incentive scheme is subject to detailed rules which permit clawback of any award in the event of any unforeseen circumstances or any evidence of inappropriate conduct in full compliance with the Remuneration Rules set out by the Prudential Regulation Authority. As noted in last year's report, in January 2017 the Remuneration Committee reviewed the overall incentives package for Executive Directors. It was decided to introduce a new variable pay scheme similar to the previous scheme for the period 1 January 2017 to 31 December 2019. The new scheme however has been revised with

more challenging performance targets and reduces the overall level of performance related pay as a percentage of remuneration. Salaries will be reviewed in line with the rate of increase for staff generally.

Under the scheme, Executive Directors are eligible for an annual variable pay award based upon personal performance. This award is limited to a maximum of 25% of base pay. In addition, the Medium Term Incentive Plan is based upon the Society's performance over a three year period ending 31 December 2019. The amount of the award depends upon the Society's performance over the period as measured by five Key Performance Indicators: Customer satisfaction, Capital growth, Maintaining profit, Loan growth and Culture. The maximum possible bonus accruing under this scheme over three years is between 45% and 75% of base salary. Payments will be split equally and paid out in two annual payments in 2020 and 2021. This incentive plan is subject to normal restrictions so that the entitlement lapses if the Director leaves in the scheme period otherwise than through redundancy or other similar circumstances that make the Director a good leaver. The incentive plan is subject to an overriding discretion by the Remuneration Committee.

Executive Directors are eligible to receive other taxable benefits including a car, or car allowance and healthcare provision for themselves and their immediate family, standard professional body subscriptions and travelling and subsistence expenses are also met.

As a result of changes in legislation relating to the treatment of pension benefits all of the Executive Directors have opted out of the pension scheme. The Society has replaced their pension benefit with a taxable cash payment based on basic pay (excluding any performance related pay). Directors' overall pension benefits have reduced as a result. Pension payments are detailed on page 11.

### EXECUTIVE DIRECTORS' CONTRACTUAL TERMS

In keeping with current recommended practice, the standard terms for new Executive Director appointments include a contractual notice period of no more than 12 months by the Society and six months by the Executive Director. Mr M A Bogard and Mr C J Fry both have contracts on this basis issued in 2012 and 2010 respectively. Mr C R Croft has a contract which requires 12 months' notice from either party issued in 2014.

### NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive Directors do not receive any benefits other than their fees and travelling and training expenses for which they may be reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations. In recognition of the increased responsibility associated with the roles, additional fees are paid to the Chairmen of Board Sub-Committees and the Senior Independent Director. Non-executive Directors' fees were increased by 3% in line with increases awarded to Society staff. This increase was recommended by the Executive Directors in accordance with the Society's Remuneration Policy as noted below.



## DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society totalling £1,226,000 (2016: £1,208,000) are detailed as follows:

a) Executive Directors	2017					
	Salary	Performance bonus	Medium-term incentive plan	Benefits	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Mark Bogard	240	63	54	16	54	427
Christopher Fry	174	45	31	14	39	303
Chris Croft	166	42	22	16	37	283
	<b>580</b>	<b>150</b>	<b>107</b>	<b>46</b>	<b>130</b>	<b>1,013</b>

A medium term incentive plan ("Plan") for the Executive Directors was approved by the Remuneration Committee covering performance over three years from 1 January 2017 (see Report on Directors' Remuneration). One third of the expected payment has been accrued in 2017 and is disclosed in the table above.

Christopher Fry is retiring in April 2018. Under the terms of the Plan, the accrual to 31 December 2017 shown above will crystallise and be paid in two equal amounts in 2019 and 2020.

Mark Bogard, Christopher Fry and Chris Croft are no longer active members of the Group's Pension Scheme. Their pension emoluments in 2017 represent monthly cash payments in lieu of contributions to the Scheme.

	2016					
	Salary	Performance bonus	Medium-term incentive plan	Benefits	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Mark Bogard	211	53	81	15	47	407
Christopher Fry	156	39	60	13	35	303
Chris Croft	151	30	58	14	40	293
	<b>518</b>	<b>122</b>	<b>199</b>	<b>42</b>	<b>122</b>	<b>1,003</b>

b) Non-executive Directors	2017	2016
	Fee £'000	Fee £'000
Rodger Hughes	56	55
John Howard	39	37
Fiona Crisp	40	38
Simon Wainwright	40	39
Patrick Muir	37	36
	<b>212</b>	<b>205</b>

With effect from 17 October 2016, the fees due to Fiona Crisp have been paid directly to a charity on her behalf. The amount paid to the charity in 2017 was £40,287 (2016: £8,354).

Mr Howard received benefits in the year of £1,216 (2016: £nil) in respect of travel expenses.

#### Directors' loans and related party transactions

A register is maintained at the Head Office of the Society, in accordance with the requirements of Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. The register will be available for inspection at the Society's Head Office during the period of fifteen days up to and including the date of the Annual General Meeting.

There were no outstanding loans with Directors at 31 December 2017 or 31 December 2016.

## THE PROCEDURE FOR DETERMINING REMUNERATION

**CODE PRINCIPLE D.2:** THERE SHOULD BE A FORMAL AND TRANSPARENT PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE REMUNERATION AND FOR FIXING THE REMUNERATION PACKAGES OF INDIVIDUAL DIRECTORS. NO DIRECTOR SHOULD BE INVOLVED IN DECIDING HIS OR HER OWN REMUNERATION.

### SOCIETY'S APPROACH

The Remuneration Committee, which comprises three Non-executive Directors, Patrick Muir, John Howard and Rodger Hughes and is chaired by Patrick Muir, is responsible for setting the remuneration of the Executive Directors. The Committee also sets the additional payments for the Chairman of the Board, the Chairmen of

the Group Audit, Remuneration and Board Group Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Executive Directors. Minutes of the Committee's meetings are distributed to all Board members, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

It is the view of the Committee that Directors' remuneration for the year has been in accordance with the Society's stated Remuneration Policy and, on behalf of the Committee; I recommend that you endorse this report.

### Patrick Muir

Chairman, Remuneration Committee  
28 February 2018



# DIRECTORS SEEKING RE-ELECTION

**IN ACCORDANCE WITH THE SOCIETY'S RULES, THE DIRECTORS BELOW ARE REQUIRED TO RESIGN AT THIS AGM AND SEEK RE-ELECTION BY MEMBERS.**



**MR JOHN HENRY HOWARD BSc**

John joined the Board as a Non-executive Director on 1 May 2008. He originally qualified as a solicitor but became one of the frontline voices on BBC Radio 4, presenting the daily consumer show 'You and Yours' for 14 years and winning several awards including the RICS award for best property programme. John's focus on consumer affairs led to him becoming a member of the Financial Services Consumer Panel for 8 years, the last three as Chairman. He was also a Non-executive Director of the Financial Ombudsman Service and a Board member of Ofgem, the gas and electricity regulator. He is the Society's Vice Chairman and Senior Independent Director, and a member of the Risk, Remuneration and Nomination Committees. In addition to his National Counties post, John is a member of the With Profits Committee of Lloyds Banking Group, a member of the Independent Governance Committee of Scottish Widows, a Consultant on financial services and energy regulation, and a Trustee of the Thalidomide Trust.



**MR CHRISTOPHER RENDELL CROFT LLB**

Chris joined the board in 2014 as Secretary and Director. He is a solicitor who has more than 30 years experience in the financial services sector both as a practising solicitor and in executive roles. Amongst his previous roles he was corporate affairs director and group secretary of a FTSE listed financial services group, a director in an investment bank and a partner in several well known city law firms. As the Society's Secretary, Chris acts as general counsel to the Board. He is also responsible for the Society's legal and compliance functions and for all support and administration services.

# SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

THIS FINANCIAL STATEMENT IS A SUMMARY OF INFORMATION IN THE AUDITED ANNUAL ACCOUNTS, DIRECTORS' REPORT AND ANNUAL BUSINESS STATEMENT, ALL OF WHICH WILL BE AVAILABLE TO MEMBERS AND DEPOSITORS FREE OF CHARGE ON DEMAND FROM EVERY OFFICE OF NATIONAL COUNTIES BUILDING SOCIETY FROM 16 MARCH 2018.

KEY PERFORMANCE INDICATORS	2017	2016
Group profit after tax to mean assets ratio	<b>0.25%</b>	0.17%
Society net interest margin	<b>1.1%</b>	1.1%
Society cost/income ratio	<b>72.2%</b>	69.3%
Common Equity Tier 1 capital ratio	<b>19.6%</b>	20.9%
Movement in Group loan balances*	<b>+14.4%</b>	+13.0%
Group residential mortgages in arrears by more than three months as a percentage of all Group residential mortgage accounts	<b>0.3%</b>	0.3%
Number of complaints upheld in the year as a percentage of average number of Society members	<b>0.13%</b>	0.12%
Percentage of members reporting good or better service in the annual customer survey	<b>92.2%</b>	89.8%

\* Excludes fair value adjustments



# SUMMARY DIRECTORS' REPORT

## BUSINESS REVIEW

The Group's profit before tax for the year ended 31 December 2017 was £6.0 million compared with £3.6 million in 2016. This increase of £2.4 million reflects the improvement in net interest income by £1.4 million, a reduction of £2.3 million in the charge for derivative valuation and hedging adjustments booked under FRS 102 this year and reductions in the charges of £0.2 million for credit provisions and the Financial Services Compensation Scheme (FSCS) provision. **In the Society, profit before tax also improved from £3.6 million in 2016 to £7.2 million in 2017.**

This is a good result, given a tough environment for our net margin across the year and because we have continued to invest in the infrastructure and staffing of the Society.

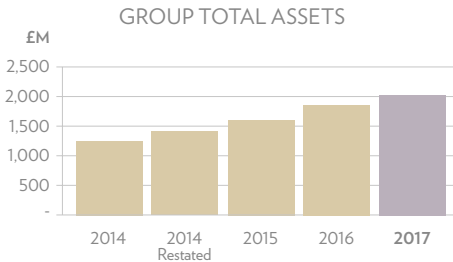


	GROUP		
	2017	2016	Change
	£m	£m	£m
Net interest income	21.3	19.9	1.4
Other income/net losses from financial instruments	(0.1)	(2.4)	2.3
Management expenses	(15.1)	(13.6)	(1.5)
Impairment losses and provisions	(0.1)	(0.3)	0.2
<b>Profit before tax</b>	<b>6.0</b>	<b>3.6</b>	<b>2.4</b>

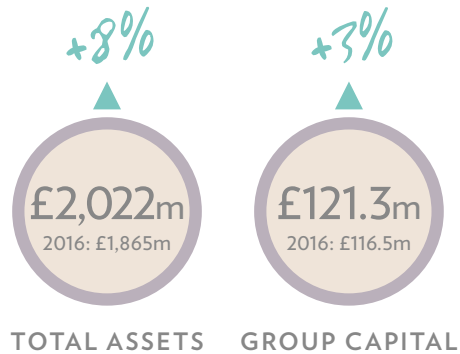
The Group's balance sheet was up at **£2.02 billion**.

It took the Society from 1896 to 2006 to get to £1 billion and it has taken us 11 years to get to £2 billion. Now size for size's sake is not a sensible goal but scale is important to help us be able to meet the costs of IT, infrastructure and regulation and compliance.





Restated 2014 figures are amended for the effects of FRS 102.



Total loans and advances to customers at the year-end were £1,565 million (2016: £1,392 million). At 31 December 2017, a total provision of £1.5 million, comprising £1.0 million individual impairment and £0.5 million collective (2016: £3.7 million, comprising £3.2 million individual impairment and £0.5 million collective), was made in the Annual Accounts for possible credit losses. Mortgage arrears are detailed in the Strategic Report in the Annual Accounts.

Liquid assets amounted to £446 million at the year-end (2016: £463 million), representing 26% (2016: 29%) of total shares and borrowings and 22% (2016: 25%) of total assets of the Group.

Savers' share balances totalled £1,332 million at 31 December 2017 (2016: £1,287 million) and deposits by credit institutions and other customers amounted to £405 million at the year-end (2016: £290 million), representing 23% (2016: 18%) of total shares and borrowings.

The Group's capital position is one of the

key indicators of its financial strength and security. It reflects its ability to absorb shocks both to the sector as a whole and any specific shocks to the Society without putting it at risk of failure. Group capital as at 31 December 2017 stood at £121.3 million up from £116.5 million in 2016 and consists of reserves built up from the accumulation of profit plus the balance on the Available for Sale reserve. The Society has not issued Permanent Interest Bearing Shares (PIBs) or subordinated debt to the market. The level of reserves is also impacted by credits or charges for potential net liabilities under its defined benefit pension schemes which for 2017 were a credit of £0.1 million net of tax compared with a £1.1 million charge in 2016.

The Group has grown its assets significantly as noted above which reduces the Group's capital ratios. Nevertheless its capital position remains very strong in the sector with a Common Equity Tier 1 ratio of 19.6% (2016: 20.9%), still significantly in excess of the regulatory requirements. In 2017 we increased our reserves by £4.7 million to £121.3 million and so remain well capitalised.

For a society of our size profits are the only source of capital to support future growth and so we are constantly seeking profitable new niches in our markets. For example, in 2017 we started to offer mortgages in Guernsey, albeit on a limited scale.

Family Building Society (FBS) is increasingly being recognised as **the** innovative building society. For the second year running it won the Mortgage Finance Gazette award for “Mortgage Product Innovation by Medium to Large lenders”. In 2017 it was the Retirement Lifestyle Booster that achieved this recognition. We also won four other mortgage awards and a savings provider award. Staff are encouraged to come up with new ideas and we are constantly looking to develop new products or improve our systems to serve member needs.

## REVIEW OF EVENTS

### THE FAMILY BUILDING SOCIETY

We launched the FBS brand nearly four years ago now. It has struck a chord for people with how we live today.

We believe that families who work together across the generations, to make the most of their money, welcome having their specific needs met with innovative, value for money products backed by excellent, personal service.

The success of FBS resulted in the decision to make FBS the main brand for the Society from December 2016 onwards. It is important to note however that this Summary Financial Statement is still for the legal entity National

Counties Building Society (NCBS), “the Society”, because the legal name of the Society has not been changed. The results are for the Society’s business whether that has been conducted under the NCBS or FBS brand; it is just that the branding has now been re-focussed on FBS. We are, however, very mindful of our need, and our obligation, to continue to serve existing National Counties’ customers. We are gradually transferring them to Family Building Society products as they see fit.

We are delighted to have received much positive press comment that often belies our size. At the heart of this is that we treat people as individuals. Young or old, we look at your individual circumstances; we want to know and understand you. The biggest providers, whatever their intentions, just can’t. They are driven too much by the volumes that they must achieve to keep their large operations going.

We generally get a hugely positive reaction from people. Our biggest issue remains that many have not heard of us and what we do. When we have the opportunity to tell them, they are almost always pleasantly surprised.

### SAVINGS

We do everything that we reasonably can to maintain our deposit rates. However we simply cannot buck the market. If we are even a little out of kilter with what others are paying, we would get engulfed in funds. Funds which we simply would not be able to lend out sensibly as mortgages. When we seek to attract new funds, we often offer a leading rate in the market. Though unlike some, we do not play the game of offering

teaser rates in the hope that people forget to move their money once the tease is over. So, in a competitive market, we are pleased to have been able to offer existing and new members a good deal; yet we are constrained in what we can do for savers.

The Society survives on the margin between the deposit rate we offer savers and the interest we can charge our mortgagors. That margin continues to tighten. It has come down over recent years and we have to maintain it - even although profits are not our focus, we must continue to build the Society's capital base to serve both existing and future customers. We seek to make a fair, sensible return which members understand and they are comfortable with.

### TREASURY OPERATIONS

The Society's overall funding last year remained largely stable. We were active in the wholesale money market and were pleased to take advantage of the relatively low interest rates on offer when compared with retail deposit rates. This activity is subject to careful management, with targets set for the mix of funding in terms of both source and duration and other limits set to ensure a prudential approach. It is pleasing that the Society's financial strength enabled it to raise more wholesale funding of varying maturities including some longer term funding on attractive terms.

Although the Society has not experienced any difficulties in raising funds throughout the different market conditions that have prevailed in recent years, we recognise the importance of maintaining a strong liquidity position at all times. The strengthened

liquidity regime for deposit-taking financial institutions began being implemented in 2010, and continues to evolve and the Society's risk management framework is subject to a periodic review by the Prudential Regulation Authority.

Central to this regime is the holding of a portfolio of high quality, readily realisable liquid assets, mainly UK Gilts and cash at the Bank of England, in order to provide a buffer in the event of any major funding issues arising for any reason. Alongside the holding of these assets, there is a requirement to prove their value at regular intervals, either through sale or use as collateral in sale and repurchase ('repo') transactions. In the course of such liquidity management operations, the Society achieved some gains on the sale of Gilts.

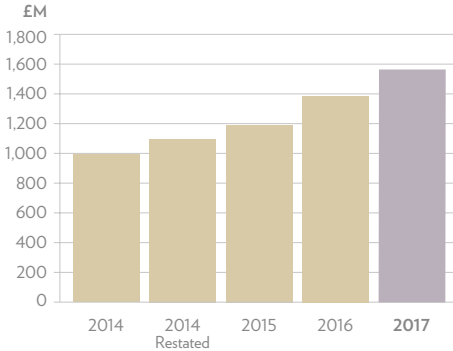
### MORTGAGES

We grew the Society's mortgage book by 16% in 2017 and further grew our market share.

The Society had a record level of mortgage applications at over £460 million. We had record levels of new mortgage business at £330 million, up 16.9% on last year. Net new mortgage lending was up £182 million. Total mortgage lending in the Society after fair value adjustments ended the year at £1.45 billion and £1.57 billion in the Group. This continues our trend of growth, helping people get a home. This was the founding purpose of building societies.

The Society's prudent lending risk appetite is implemented through the individual assessment of loan applications by experienced underwriters and the success of the approach

## GROUP RESIDENTIAL MORTGAGES



Restated 2014 figures are amended for the effects of FRS 102.

is demonstrated by the incidence of arrears remaining low. Whilst we observe responsible lending principles, so that borrowers should find their mortgages affordable, genuine difficulties can arise in relation to maintaining mortgage payments in adverse economic conditions or changes in personal circumstances. We offer borrowers forbearance in accordance with our arrears policy and procedures which are compliant with regulatory guidance, best practice and the principles of Treating Customers Fairly (TCF). Reaching the best outcome for the customer is, though, dependent on borrowers making early contact with us and openly discussing their circumstances.

It is pleasing to report that only one residential property mortgaged to the Group had to be re-possessed during 2017 which was sold without loss. In the final analysis, most problems in banking are caused by lending money to people who are unable to repay it. This is why credit quality is so fundamental to the Society's security and its long-term future.

Our review of the arrears situation at the end of 2017 took the total of our provisions down to £1.2 million in the Society, equivalent

to 0.09% of total balances outstanding. £0.4 million of this related to our small portfolio of commercial property, for example shops, which, as we have not sought any new business in this area since 2013, is in run-off, together with what is left of our historic development loans.

## CUSTOMER SERVICE

Our customer satisfaction surveys show a continuing rise in the KPI score over the past three years from 87.5% in 2015 to 89.8% in 2016 and 92.2% in 2017. We also get a constant flow of positive feedback from members which is much appreciated by our staff. Our people are only human though so occasionally mistakes will be made (we receive less than one complaint a year per 1,000 accounts) and if so we seek to rectify them as soon as possible.

Our guiding principles in relation to customer service, as set out in our corporate objectives, are consistently attractive and dependable products and convenient and personal service. We want to be modern, but with traditional values. So we offer online accounts, but we have experienced and well-trained people on the telephone in our Epsom office. We continue gradually and carefully upgrading and updating our systems. We hope to take some material steps forward in 2018. This pushed our cost income ratio up to 72% in 2017. This is not welcome but we do want to invest in our service to members. We continue to better manage the flow of calls that we receive from customers, potential customers and intermediaries. Our goal is always to answer the telephone quickly – we all hate hanging on. On those occasions where we cannot,

we call people back promptly. We know that there is always more to do, including upgrading our websites. We are also working on increasing the pace at which we are able to make mortgage offers.

Consistent with the principles of TCF, we take care in the design of our products to ensure they will meet the needs of the customers for whom they are designed and we assess the impact of any new products on existing account holders. We do not reserve any of our products for new customers only and we notify our savers and borrowers of the products available to them upon expiry of special terms, such as fixed or discounted rates. Our websites are updated promptly and provide full details of our product range. In addition, there are a number of mailings undertaken each year which we use to keep customers advised generally of product and service developments.

We continue to put a lot of effort into understanding how best to deal with vulnerable customers, including additional staff training.

As noted feedback from customers is much appreciated, with positive comments reinforcing our actions, whilst any instances of unsatisfactory service cause us to investigate and determine improvements for the future. It is rare that complaints from our members are referred to the Financial Ombudsman Service (FOS), with just 6 cases arising in 2017 in the Group of which 4 were found in our favour, one against and one is outstanding.

In the last two years there has been significant expenditure on systems resilience and on measures to counter cyber attacks, an ever

increasing threat to the Society. We are pleased that this has resulted in the Society being awarded Cyber Essentials accreditation status. This is a UK Government backed scheme, based on advice from the National Cyber Security Centre. Such certification requires an independent assessment to be carried out by a CREST accredited certification body to verify that the most important cyber security controls have been implemented. This is an area however where we need to be and are constantly vigilant.

## PERSONNEL

2017 has been a very busy year again.

Across the Society, the people who answer calls, give customers advice, open and close accounts, underwrite the loans and process the business, manage the money, create innovative new products and produce our marketing materials, manage our risks, look after our staff, keep what we do legal and compliant, do the accounts and make sure that the office functions, have all dealt with more business than we ever have before. And, almost without exception, they have dealt with it to a high standard, at pace.

We continue to support our staff through an extensive range of training courses and professional studies covering technical skills, regulatory compliance and commercial awareness. Close attention is paid to succession planning and we seek to develop key talent so they may grow to provide our leaders in the future. Our staff have adapted really well to the recent fast rate of change in technology and regulation. We also ensure that Board members continue their own education.

We welcome this opportunity to acknowledge the commitment and industry of the Group's employees and to place on record our appreciation for all their efforts. The compliments that we receive almost without exception name an individual.

Unfortunately, we shall go into the rest of the year after the Annual General Meeting without Chris Fry, who has been the Finance Director here for the last 8 years. Chris joined the Society during a particularly difficult time for the financial services industry and at a time when the Society also faced some challenges. He has played a critical part in the Society coming through those challenges and members owe him a real debt of gratitude. We wish him a long and happy retirement, between the DIY and watching rugby. The recruitment process for a new finance director is well under way.

### CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Society has always recognised its community, marketplace, employer and environmental responsibilities. We meet these responsibilities, almost instinctively, as a by-product of our mutual, customer owned status and business ethos, but they are also enshrined in a Board-approved CSR Policy Statement that encompasses all facets and provides a steer for the ongoing development of this important issue which is driven by a staff-led Committee.

Our activities in the community include support for selected charities, schools, clubs and voluntary organisations based locally to the Society's Head Office, including our local food bank. During 2017 we were pleased

to participate in an Epsom-based business enterprise initiative, sponsoring the prize for the Best Business for Customer Service, a business competence we hold dear.

### INDICATION OF LIKELY DEVELOPMENTS

Looking forward, our strategy must remain live to dealing with the political, economic, competitive and regulatory issues and uncertainties that we all face and which, in significant part, continue to prescribe the Society's relationship with you, our members. Above all, we shall remain prudent and vigilant.

Our growth has been achieved in an extremely competitive market thanks to consistent focus on a clear strategy "to grow the Society to gain economies of scale while staying true to our mutual culture and values and not taking unnecessary risks." We are doing this by delivering innovative and flexible products that meet the needs of today's families across the generations. This includes identifying potential borrowers who are not well served by standard products in the mass market e.g. older or self-employed people, and developing products tailored to their particular needs.

We continue to face the future with optimism. We are investing in that future. If we offer customers what they want – innovative products, that meet their needs sensibly, delivered efficiently but with old-fashioned customer service, we will continue to prosper.

# SUMMARY FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP	
	2017 £'000	2016 £'000
<b>Group results for the year</b>		
Net interest income	<b>21,336</b>	19,852
Other income and charges	<b>244</b>	194
Net losses from financial instruments	<b>(221)</b>	(2,532)
Administrative expenses	<b>(15,161)</b>	(13,619)
Provisions for impairment losses	<b>(137)</b>	(26)
Provisions for liabilities	<b>(14)</b>	(287)
<b>Profit for the year before tax</b>	<b>6,047</b>	3,582
Tax expense	<b>(1,174)</b>	(724)
<b>Profit for the year</b>	<b>4,873</b>	2,858

## Financial position at the end of the year

<b>Assets</b>		
Liquid assets	<b>445,708</b>	462,914
Mortgages	<b>1,565,258</b>	1,392,218
Other loans	-	2
Derivative financial instruments	<b>1,531</b>	322
Fixed and other assets	<b>9,281</b>	9,988
<b>Total assets</b>	<b>2,021,778</b>	1,865,444
<b>Liabilities</b>		
Shares	<b>1,331,532</b>	1,286,835
Borrowings	<b>404,855</b>	290,315
Derivative financial instruments	<b>159,208</b>	164,211
Other liabilities	<b>3,303</b>	6,290
Retirement benefit obligations	<b>1,614</b>	1,253
Reserves	<b>121,266</b>	116,540
<b>Total liabilities</b>	<b>2,021,778</b>	1,865,444

# SUMMARY OF KEY FINANCIAL RATIOS

	GROUP	
	2017 %	2016 %
<b>As a percentage of shares and borrowings</b>		
Gross capital	<b>6.98</b>	7.39
Liquid assets	<b>25.67</b>	29.35
<b>As a percentage of mean total assets</b>		
	%	%
Profit for the year	<b>0.25</b>	0.17
Management expenses	<b>0.78</b>	0.79

The notes on page 25 form part of this Summary Financial Statement.

The Summary Financial Statement was approved by the Board of Directors on 28 February 2018 and signed on its behalf by:

**Rodger Hughes**  
Chairman

**Mark Bogard**  
Chief Executive

**Christopher Fry**  
Finance Director



## NOTES TO THE SUMMARY STATEMENT

THE INFORMATION SHOWN HAS BEEN TAKEN FROM THE GROUP STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017.

Gross capital consists of general reserves and provides the cushion which underlines the Group's financial strength. The **gross capital ratio** measures the relationship between capital and the Group's liability to investors and depositors.

Liquid assets are funds readily available to meet general business activities. The **liquid assets ratio** measures the relationship between such funds and the Group's liability to investors and depositors.

The Group aims to make a reasonable level of profit in order to maintain its capital strength and allow for future growth. The **profit for the year ratio** measures the proportion that the Group's profit after taxation bears to the average of its total assets during the year.

Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that members require. The **management expenses ratio** measures the proportion that the Group's administrative expenses for the year bears to the average of its total assets during the year.

## INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS AND DEPOSITORS OF NATIONAL COUNTIES BUILDING SOCIETY

### OPINION

We have examined the Summary Financial Statement of National Counties Building Society ('the Society') for the year ended 31 December 2017 set out on pages 15 to 25.

On the basis of the work performed, as described below, in our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ending 31 December 2017 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

### BASIS FOR OPINION

Our examination of the Summary Financial Statement consisted primarily of:

- Agreeing the amounts and disclosures 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 2017, including consideration of whether, in our opinion, the information in the Summary Financial Statement has been summarised in a manner which is not consistent with the full Annual Accounts, the Annual Business Statement

and Directors' Report of the Society for that year;

- 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, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2017.
- We also read the other information contained in the Members' Update and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

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.

### DIRECTORS RESPONSIBILITIES

The Directors are responsible for preparing the Summary Financial Statement within the Members' Update, in accordance with applicable United Kingdom law.

### AUDITOR'S RESPONSIBILITIES

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the Members' Update 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.

### OPINION ON SUMMARY FINANCIAL STATEMENT

The Auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our 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 as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

**Richard Gabbertas**  
**for and on behalf of KPMG LLP,**  
**Statutory Auditor**  
*Chartered Accountants*  
 One Snowhill, Snow Hill Queensway,  
 Birmingham B4 6GH  
**28 February 2018**



## BOARD OF DIRECTORS

### Chairman

Rodger Hughes MA, FCA

### Vice Chairman

John Howard BSc

### Directors

Mark Bogard MA\*

Christopher Croft LLB\*

Christopher Fry BA, ACA\*

Fiona Crisp MSc, DIC, FCT

Patrick Muir

Simon Wainwright BSc, MBA

*\*Executive Directors*

## EXECUTIVE TEAM

### Chief Executive

Mark Bogard MA

### Company Secretary

Christopher Croft LLB

### Finance Director

Christopher Fry BA, ACA

### Functional Directors

**Chief Operating Officer:**

**Business Change:**

**Business Development:**

**Commercial Development:**

**Compliance and Legal Services:**

**Finance:**

**Finance Development:**

**HR and Training:**

**Lending:**

**Risk:**

**Treasury:**

Stephen Drury

Michael Feather

Keith Barber DMS, ACIB, DipPFS

Chris Agathangelou

Kathryn Mendoza LLB

Malcolm Clays BSc, ACA

David Horsman LLM, FCCA

Vicki Webb BSc, MCIPD

Andrew Deeley MCICM

Mark Willis MA (Oxon), FCA, FCT

Nick Hodges BSc, AMCT, ACMA



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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 206080.  
[www.fca.org.uk/register](http://www.fca.org.uk/register). Member of the Building Societies Association.