HINCKLEY AND RUGBY
BUILDING SOCIETY

Annual Report and Accounts 2021

About us

Hinckley and Rugby Building Society has been serving its members for over 150 years. The Society has an extensive range of competitive savings accounts and mortgage schemes and remains as committed to providing the highest standards of customer service as it has ever been.

In this report

Established 1865

Member of the Building Societies Association

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The Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

The Society's registration number is 206043

Chairman's statement

"We are committed to providing a local service through our branch and agency network."

Colin Franklin
Chairman

Twelve months ago, I wrote that it had been an unprecedented year which had been dominated by the Covid-19 pandemic. Little did I know that the following year would also go down in the history books as a "pandemic year" dominated by vaccines and boosters. Our staff would once again rise to the challenge and our branches remained open all year. As I write this report, I am loath to predict the next year but one thing I know for sure is that Hinckley & Rugby Building Society will be there supporting our members whatever difficulties we may all face.

The pandemic years have seen us continue to strengthen the Society and I am delighted to report that our profits, operating margin, capital position and liquidity all improved during the year. We remained cautious with our lending risk appetite during the key lockdown periods and that allowed us to record excellent asset quality at the end of our year, as well as support any members who were facing financial struggles. However, this caution saw our mortgage book decline during the year, and we are now ready to move back into growth.

It was also an important year in our history as we reached the age of 160 years in Rugby, and we supported several local charities with a £160 donation to commemorate this anniversary. Membership is as important today as it was all those years ago. When I meet new staff, during their first couple of days with the Society, I always explain what the mutual model means to me and how they can flourish in our supportive environment. Mutuality allows us to care for our staff, our members and our communities and I see our new staff enthusiastically engaging with this business model.

I am delighted that we have created a framework for launching the Hinckley & Rugby Community Foundation. This Foundation will support local charities and local people throughout Leicestershire and Warwickshire. During 2022 we will provide grant funding and will take a close interest in the local work that we support, with us sharing our knowledge and skills where we can. We will present the first grant cheques at our AGM in March 2022, and I look forward to seeing the difference that we can make in 2022 and future years. Our ESG (Environmental, Social & Governance) strategy also developed strongly, and we were able to share our progress at a virtual COP26 Conference.

With four digital projects (including a new phone system and live chat) delivering service improvements in 2021, your Board has agreed to continue the investment in our digital services and during 2022 we will make plans to enhance our systems for mortgages and savings. This is part of an overall digital programme to enhance our services to our members and allow them to access our services in a way and at a time that suits them. We have several channels that members can use to engage with the Society, and with a new phone system installed in 2021, and a new website due to be implemented in 2022, our capability will continue to grow. Whilst we are investing in digital services, our branch and agency network remains the cornerstone of our business, with staff supporting our local communities every day. That will not change. We are committed to providing a local service through this network.

I am proud to lead your Society and proud of the way the staff have managed the Society through the pandemic. I also take great pride in the recognition our staff get for our work in the community, and particularly this year with awards from Leicestershire Cares and the Leicestershire mental health charity LAMP.

I would like to thank all staff and my fellow directors for their dedication and support over the year.

Colin Franklin
Chairman

15 February 2022

Chief Executive's report

> We were made in Leicestershire and Warwickshire, and we will continue to make a difference in these two counties."
>
> **Colin Fyfe**
> Chief Executive

Looking back

I am pleased to look back on 2021 and report a successful year for your Society. It was not perhaps the year we expected with the Covid-19 pandemic continuing to have a material impact on our lives and therefore our focus continued on supporting our staff, our members and our local communities through these challenging times.

We continued our prudent path through the pandemic's obstacles, and this had a positive impact on our much-improved profit performance but also restricted the growth of our mortgage performance.

One of our main aims was to support any of our members who were in difficulty and there is no better example of this than the industry-wide mortgage payment deferral programme which came to an end in 2021. Of over 500 members who took at least one mortgage payment deferral during this time, I was delighted that fewer than 1% of them required additional support at the end of their deferral period. The effort to achieve this outcome was substantial and I am again grateful to the staff who came together from all corners of the Society to achieve this. As we move into 2022, our national economy and local communities are again feeling the impact of the pandemic and we stand ready to continue to support our members.

We started the year with an innovative campaign, in partnership with our local community radio station, Fosse 107, to Pay Your Bills. Twenty local listeners had their January council tax, energy, food or phone bill paid by our Society. It was a way of lightening the load and demonstrated that the financial wellbeing of local residents matters so much to us.

As in 2020, we were unable to get together with members for our Annual General Meeting and, in a first for the Society, the full meeting was streamed live to our members. Mindful of keeping our staff and members safe, we will use a hybrid format for the AGM in March, with the face-to-face meeting streamed online for those who do not wish to attend in person.

Over the summer we introduced our new branch proposition, which aims to see us reach out more proactively into our local communities. Our branches moved to a permanent 9am till 2pm opening times (Monday to Friday) with Saturday's hours remaining at 9am till 12pm. I am grateful to our members who have adapted to these times and also the members who have taken advantage of the private appointments available on weekdays between 2pm and 5pm for those who would like a bit more time to open an account or to discuss a private matter in a confidential environment. Our branch staff now have more time to proactively support our local communities and we are keen to reach the end of any Covid restrictions to allow this work to flourish.

We took the opportunity to review our operating practices and during the year we created an Operations team who frequently undertake workload to free up time for our customer facing staff to spend more time providing local support. Over this period, the remainder of all our current and historic mortgage files and documents were "digitised", helping our efficiency and green intentions. We have also taken the opportunity to strengthen our Change Project capabilities, which will provide additional manpower and governance as we complete our investment programmes.

Financial performance

Our strategy during the last two financial years has been to strengthen our net interest margin, thus ensuring the Society grows its profitability and capital base. We called this our "widening the jaws" strategy, and I am delighted to report that this has been successful, with our net interest margin climbing to 1.34% from 1.13% in 2020 and 1.11% in 2019. In a low interest rate environment and with mortgage competition continuing to be fierce we have navigated the Society's financial position to a stronger and safer place and created a foundation for future growth. This enabled us to deliver a profit before tax of £1.44m which was a 157% increase on the previous year. Supported by our members, the Society's funding profile remained strong, and this allowed us to reduce the level of term funding in place from the Bank of England.

Our lending appetite was restricted during the year as we conservatively moved out of some of our core mortgage markets such as self-employed and buy to let lending. Our goal was to protect the Society from Covid-related headwinds, and we felt that these two areas, plus higher loan to value lending, may be worst impacted. The government's support for employers and employees were new initiatives and ultimately supported the UK economy, including house prices, from taking a material dip. This protection was crucial, and we ended the year with very strong asset quality in our mortgage book and a very low number (0.49%, 2020: 0.57%) of mortgage members in arrears with their mortgage payments. The consequence, however, was clear in our balance sheet, with our mortgage book falling as we let some areas of traditional business pass.

Towards the end of our financial year, we relaunched competitive mortgage products into all of our core mortgage lending areas, and we are confident that we will return to growth in 2022. This growth will come from targeted lending in areas where we have existing expertise; lending areas where the mortgage customer is underserved by the high street lenders and wants a building society to listen and support them. This takes us back to our core propositions, but we will do this under the theme of mortgage transformation by refocusing our service on our mortgage brokers and mortgage borrowers.

The fundamentals of the Society have strengthened in 2021, with a strong capital position, a strong liquidity position and the now closed defined benefit pension scheme having a healthy surplus. Whilst interest rates have started to rise in December 2021 and consumer prices are also rising sharply, the Society is in a good place to navigate through the year ahead.

Investment

Your Society has been working on a blended channel strategy for the last couple of years. We want our members to be able to access our services at a time and place that suits them. In 2021 we took a big step forward in achieving this with delivery of key digital projects to support this goal. Over the summer we upgraded our core operating system to allow greater functionality and provide us with the capability to integrate more services in future years. Our operating practices during the Covid pandemic highlighted the need for a new digital phone system and, as we finished the financial year, this was implemented and will strengthen our service delivery. Another channel was created early in the year when we launched live chat on our website. Initially supporting swift and convenient communication between mortgage brokers and our staff, this is proving successful and is being introduced into our main mortgages and savings channels. We also signed a contract during 2021 to replace our website and we are excited that this gives us a chance not only to increase the web functionality but to modernise what often can be people's first experience of dealing with us. We plan to launch our new website during 2022.

The pace of digital change will continue in 2022, where we have plans to improve our core technology security and service by moving to a managed service in the cloud. The preparation and tender processes for this change have been significant and we are working with trusted partners and technology experts to plan the change carefully. These changes will lead to creating plans in 2022 for a new online front end mortgages and savings platform which we plan to deliver over the next few years.

The investment required to keep your Society relevant in a modern world will not stop. But that does not change our commitment to our local communities. Our branches are here to stay on our high streets. Branches were, for many years, the only service channel but now they will become one of many service channels, thus increasing choice for our members.

Staff

I cannot thank the Hinckley & Rugby staff enough for their resilience and dedication throughout 2021. In what were continually testing times, the staff provided the Society's services with a smile every day with no need to close our branches or other channels. In fact, it was a period of growth for our staff as we strengthened certain key areas and blended in the skills that we need for our growth aspirations. Our staff numbers grew from 130 to 152, and we have a strong team to take the Society forward. We continued our investment in our people, and I am delighted to say that a further three members of staff will complete their Masters qualification at Loughborough University in 2022. This will take the total staff qualified under this programme to six and we will encourage others to participate when the next cohort starts in Autumn 2022.

2021 was the second year of the Society's revised performance management framework, which is used to support individuals' performance throughout the year. Staff members have been involved in its creation and enhancement and I was particularly keen that a staff group engaged in an exercise to determine the behaviours that every staff member (from CEO to newest recruit) must embrace. The four key behaviours identified were:

- Teamwork
- Courage to challenge
- Taking responsibility
- Going the extra mile

The mental health and wellbeing of our staff is of key importance to us, and we continued our support programme in 2021 by providing our staff with access to the Mattioli Woods wellbeing portal and also increasing the number of mental health first aiders who are qualified within the business. There are other wellbeing topics which we are finding we can help our staff with and our focus on menopause started in 2021, with training on the early identification of prostate and testicular cancer planned for early 2022.

Our Diversity and Inclusion Committee was established in 2021 and is already doing some excellent work which will lead into our diversity and inclusion strategy, which will be presented early in 2022. We believe that an inclusive culture, where everyone's voice and opinions matter, is essential to a successful workplace and we want to explore how we can embrace this further in 2022.

Chief Executive's report continued

ESG (Environmental, Social & Governance)

As all businesses' ESG strategies grow in importance, your Society continues to take a proactive approach in all areas. I was delighted to continue to Chair the Building Societies Association's Green Finance Taskforce and this gave me the opportunity to represent the Society and Sector talking at a virtual COP26 Conference. I explained that our Society has entered into two partnerships to test the way we communicate with our members about the retrofit needs for their residential or let properties. The findings in 2022 will help us support our members and local communities to understand what the requirements are and what choices they have.

Outside our mortgage book, the Society has its own carbon footprint and we received individual measurement (Scope one and two emissions) during the year which recorded this as 152 carbon dioxide equivalent (CO_2e) tonnes. This has provided us with a baseline and our action plans are being drawn to bring this down to net zero. As the year came to an end, we entered into a partnership with the local Rotary Clubs in Rugby to support the Rotary World Savers initiative. The goal is to create a community that receives regular actions to carry out so that, collectively, individuals can support the drive to a more environmentally sustainable world. We will help to spread the word and the actions through our networks.

The creation of the Hinckley & Rugby Building Society Community Foundation has been one of my personal ambitions and, now the infrastructure is in place, we are looking forward to supporting and working with local charities to help them continue the good work they do. Our ability to share our knowledge, skills and experience can make those relationships mean more than the cheques we donate. In what will be our first year, 134 of our staff voted for the areas they would like us to get behind in 2022. The three areas we will support this year are:

- Mental and physical health and wellbeing
- Poverty and disadvantage
- The environment

Using the expertise of our partner Community Foundations we will identify the local charities that we work with.

Looking Forward

The UK economy has been resilient through the Covid pandemic, but it is only as we finally leave restrictions behind that we will understand if any headwinds exist that will cause any local or national shocks. Government support has been vital but the medium-to long-term impacts of its provision are likely to become clearer through 2022 and into 2023.

Having operated in a low interest environment (Bank of England Base Rate at 1% or less) for approaching 13 years, the recent increases should not have been a surprise but with inflation rising steadily it seems likely that 2022 and 2023 will see a number of interest rate increases to temper inflation.

Your Society, whilst having a keen eye on the economy, keeps its medium-term strategy in clear sight. The foundations of the business have never been stronger in recent history, and we have the capacity and capability to grow this business whilst managing the right investments at the right times. Our attention will not be diverted from our local markets. We were made in Leicestershire and Warwickshire, and we will continue to make a difference in these two counties.

Colin Fyfe
Chief Executive

15 February 2022

Chief Financial Officer's report

> The Society's financial performance improved during 2021, despite the continued impact of the Covid pandemic on the economy, our markets and our members. Profit before tax increased to £1.44m. Prudent levels of liquidity and capital were maintained."

John Mulvey
Chief Financial Officer

This section of the annual report reviews the current position and performance of the Society, and details the key financial indicators monitored by the Board.

Details of the progress made by the Society with the implementation of the Board's strategy are set out in the Chief Executive's report on pages 4 to 6.

Summary financial position

The Society's financial performance improved during 2021, despite the continued impact of the Covid pandemic on the economy, our markets and our members. Profit before tax increased to £1.44m (2020: £0.56m), following careful management of the Society's net interest margin, with changes to both mortgage and savings product rates during the year. Prudent levels of liquidity and capital were maintained. The improvement in profitability allows investment in additional staff resource and new technology in 2022 and future years.

The UK government's extension of Covid support schemes, introduced in 2020 to protect businesses, jobs and borrowers, helped to offset the economic uncertainty and limit the disruption to the housing and mortgage markets. These schemes, which included the Job Retention Scheme (furlough), loan payment deferrals, the moratorium on possessions and the concession on residential stamp duty, were withdrawn during the year, with the furlough and stamp duty schemes ending on 30 September 2021.

The Society continued to take a cautious approach to lending in this environment, with the pre-pandemic lending criteria only reintroduced at the end of the financial year. This, and other factors, led to a reduction in loans and advances to customers to £619m (2020: £658m).

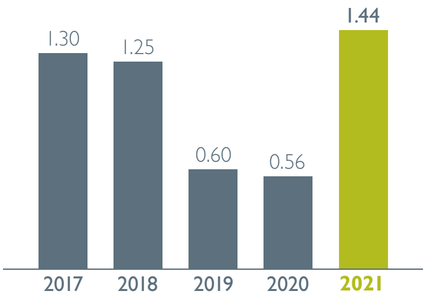
Certain impairment provisions held at the end of the prior year, due to the uncertainty surrounding borrowers who deferred mortgage payments, were released following the return of these borrowers to normal monthly payments. Impairment provisions held at the end of the year remain higher than pre-pandemic levels due to the remaining uncertainty now that the support schemes noted above have been withdrawn.

Key financial measures for the year are shown below.

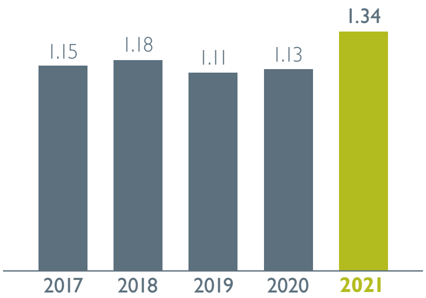
	2021	2020	2019
Profit before tax (£m)	**1.44**	0.56	0.60
Loans and advances to customers (£m)	**619.0**	657.9	696.0
Retail savings (£m)	**693.0**	690.2	677.3
Liquid assets (£m)	**172.3**	145.2	129.7
Wholesale funding (£m)	**60.0**	74.0	111.7
Gross capital (£m)	**47.3**	45.4	43.2
Total assets (£m)	**803.6**	814.0	834.6
Net interest margin as a percentage of mean total assets	**1.34%**	1.13%	1.11%
Management expenses as a percentage of mean total assets	**1.22%**	1.06%	1.05%
Cost / income ratio	**88.4%**	93.3%	93.0%
Liquid assets as a percentage of shares and borrowings	**22.9%**	19.0%	16.4%
Gross capital as a percentage of shares and borrowings	**6.3%**	5.9%	5.5%
Common Equity Tier 1 capital ratio	**17.0%**	15.7%	14.1%
Balances in arrears as a percentage of gross loans and advances	**0.71%**	0.88%	0.38%

Chief Financial Officer's report continued

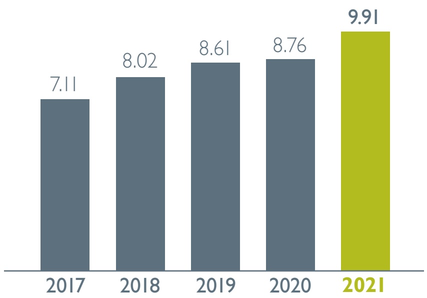
Profit before tax
(£ million)



Net interest margin
(%)



Administrative expenses including depreciation and amortisation
(£ million)



Profit before tax

As a mutually owned business, the Society is not aiming to maximise profit for shareholder gain, but it does need to make sufficient profit to support the capital it maintains for the protection of shareholding members and other depositors, and to support asset growth. Profit before tax in 2021 was higher than the prior year, increasing by £0.88m to £1.44m, due to:

- Net interest receivable increasing by £1.5m to £10.81m (2020: £9.31m), with lower interest paid on savings products as rates were reduced in line with the savings market, and increased mortgage early redemption charges received. This was partially offset by lower interest received on loans and advances to customers, as balances reduced over the year, and by lower returns on liquid assets.
- Net gains on derivative financial instruments held for hedging purposes increasing by £0.25m to £0.20m (2020: £0.05m loss). In common with many financial institutions, the Society uses derivatives (in the form of interest rate swaps) to hedge the risk of interest rate movements impacting adversely the net interest receivable earned on its portfolios of fixed rate mortgage and savings products. Movements in the fair value of these derivatives result in a charge or credit to income and largely represent timing differences recognised over the duration of each derivative contract.
- An impairment credit recognised on loans and advances to customers of £0.10m during the year (2020: £0.21m charge), due to the lower number of borrowers in arrears and deferring mortgage payments.

The factors on the left were partly offset by:

- Administrative expenses, including depreciation and amortisation, increasing by £1.15m to £9.91m (2020: £8.76m) due to increased staff costs, legal and professional fees, and computer expenditure.
- Gains on investment properties reducing by £0.10m to £0.04m (2020: £0.14m), with the small gain recognised in the year relating to property market movements. The majority of the gain in the prior year related to one investment property, following the negotiation of a lease to a third-party tenant.

Net interest margin

The difference between interest rates earned from mortgages and liquid assets, compared with those paid on savings and wholesale funding, is referred to as the net interest margin (NIM) and is a key measure of the underlying performance of the Society. It is expressed here as a percentage of the Society's average total assets.

Factors affecting the Society's NIM include the level of competition within the mortgage and savings markets, the returns achievable on liquid assets, the costs of wholesale funding, and the level of SONIA, a variable rate that governs the interest received on the Society's interest rate swaps that are used to hedge fixed rate mortgages. A lower level of SONIA reduces the overall level of interest earned on the Society's fixed rate mortgage balances.

Following the reduction in the Bank of England base rate by 0.65% in March 2020 to a record low of 0.10%, the Society held off reducing savings rates by the full reduction until early 2021, when rates were reduced in line with the savings market. As a result of these savings rate reductions in the year, the Society's NIM increased to 1.34% (2020: 1.13%). Other factors improving the NIM were increased mortgage early redemption charges received and careful management of the Society's mortgage product proposition. These were partially offset by lower interest received on loans and advances to customers as balances reduced over the year, and lower returns on liquid assets held due to the prevailing low market interest rates.

Administrative expenses including depreciation and amortisation

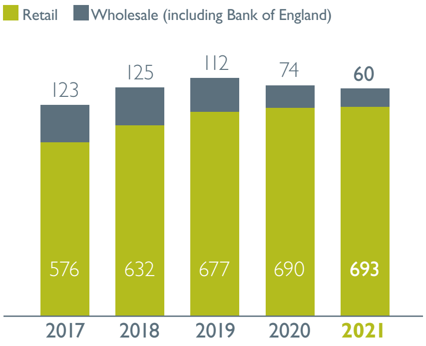
The Board is always conscious that higher costs of running the Society would restrict the benefits it is able to pass on to its members in the form of better savings and mortgage rates. The Society remains an efficiently run organisation and its level of management expenses (expressed as a percentage of average total assets) of 1.22% (2020: 1.06%), despite increasing, were in line with the average last year for a building society of this size.

Overall administrative expenses, including depreciation and amortisation, increased by £1.15m to £9.91m (2020: £8.76m).

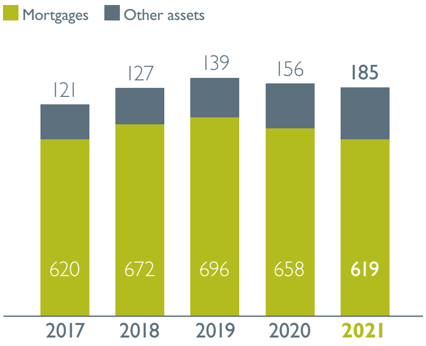
Costs throughout the building society sector have increased significantly in recent years as organisations, including the Society, have invested in people and systems to deliver improved customer service commensurate with member expectations, improvements in cyber security, and to respond to increasing regulatory requirements. As a result, during 2021 the Society incurred increased staff costs, legal and professional fees, and computer expenditure. The Society has not furloughed any staff

In addition, a donation of £0.11m was made to the Society's new community foundation, and further professional fees were incurred due to increased internal and external audit fees, and one-off items relating to updated product documentation and in support of funding facilities.

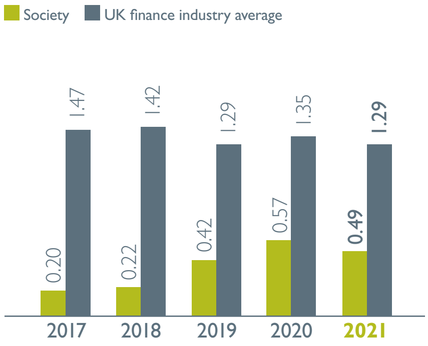
Overall funding including Term Funding Scheme (TFSME) (£ million)



Total assets and mortgage balance (£ million)



Number of borrowers one month or more in arrears (%)

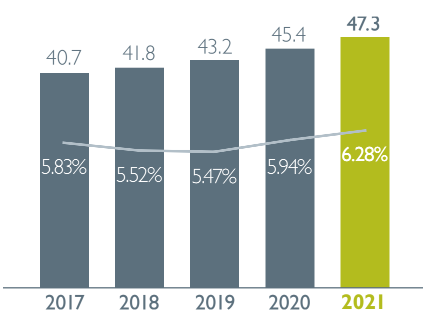


Capital

Capital is held to provide protection for members' deposits against credit losses arising from lending and other risks to which the Society is exposed. A feature of the Society's risk management framework is the Internal Capital Adequacy Assessment Process (ICAAP), as required by the EU Capital Requirements Directive (CRD). The ICAAP assesses the level of capital that the Board considers adequate to mitigate the principal risks and uncertainties to which the Society is exposed, as set out in the Directors' report on page 26. The Society runs regular stress tests to ensure it is adequately capitalised, including a severe economic downturn based on that used by the Bank of England to test the capital adequacy of systemic firms within the UK banking system.

The Society generates capital from profit made by normal business activities. The Society's profit after tax for the financial year of £1.08m (2020: £0.55m) was transferred to general reserves. In addition to the increase due to retained profits, the Society's reserves increased by £0.84m (2020: £1.59m) due to actuarial gains recognised in the pension scheme. As a result of this, gross capital at the year-end increased to £47.3m (2020: £45.4m). The Society's gross capital ratio (gross capital expressed as a percentage of total shares and deposits)

Gross capital ratio (%)
Gross capital (£ million)



was 6.28% (2020: 5.94%). The Society's free capital ratio (gross capital and collective provision less tangible fixed assets, intangible fixed assets and investment properties, expressed as a percentage of total shares and deposits) was 5.52% (2020: 5.15%).

At 30 November 2021 the Society's Total Capital Requirement set by the Prudential Regulation Authority was £24.3m (2020: £25.3m), with £20.2m (2020: £21.2m) relating to the Pillar 1 capital requirement and £4.1m (2020: £4.1m) relating to the Pillar 2A capital requirement. Regulatory capital held by the Society at 30 November 2021 was £43.6m (2020: £42.2m), representing 17.3% (2020: 15.9%) of total risk weighted exposures and well in excess of the minimum Total Capital Requirement.

The audited disclosures required by the Capital Requirements Directive (Country-by-Country Reporting) Regulations 2013, which are prepared to comply with the Capital Requirements Directive, are shown in note 31 of the accounts.

Funding

In accordance with its role as a mutual building society, the Society draws most of its funding from its members in the form of retail deposits. Total retail savings balances (which include member share balances, as well as other retail accounts such as accounts for corporate, charities and local clubs and associations) grew by £2.8m during 2021 and represented 92% (2020: 90%) of the Society's total funding.

The Society also takes some funding from the wholesale money markets, and for several years has participated in the Bank of England schemes that provide medium-to long-term funds secured against mortgages and other assets at cost-effective rates of interest.

At the prior year-end the Society had £70.0m of funding from the Bank's Term Funding Scheme (TFS). During 2021, the Society refinanced £60.0m of this funding under the Bank's Term Funding Scheme with special incentives for SMEs (TFSME), which again provides four-year term funding to banks and building societies, and continued to hold this funding at the year-end.

The Society repaid the majority of its unsecured wholesale funding during the year, with £0.3m (2020: £4.0m) outstanding at the year-end.

Liquidity management

The Society undertakes a full review of liquidity adequacy each year, referred to as the Internal Liquidity Adequacy Assessment Process (ILAAP), including an assessment as to the quantity and quality of liquid assets that the Society should hold to mitigate the liquidity risks to which it is exposed under both normal and stressed conditions. The Board approves the ILAAP on an annual basis and this forms a further component of the Society's risk management framework.

The Society's liquid assets of £172.3m (2020: £145.2m) at the year-end represented 22.9% (2020: 19.0%) of shares and borrowings. The level of liquidity held relative to total shares and borrowings remains significantly above the Board's internal assessment of its minimum requirement and its regulatory minimum requirement. Of the liquid assets held, £158.1m (2020: £131.2m) was on deposit at the Bank of England.

The Society, in common with its peers, has access to the Bank of England's Indexed Long Term Repo (ILTR) facility, which provides funding to help manage short-term cashflow imbalances that may arise through day to day operations, and to the Discount Window Facility (DWF), which is available to provide rapid access to liquidity in the event of a severe and unexpected cash flow stress. The Society did not use either of these facilities during the current or prior years.

Chief Financial Officer's report continued

Loans and advances to customers

Loans and advances to customers at 30 November 2021 were £619m (2020: £658m), representing a decline of 5.9%. In response to the impact of Covid on the housing and mortgage markets, the Society ceased new lending in several categories, including lending above 80% loan to value (LTV), and tightened its lending criteria during the prior year. These markets were only re-entered part way through 2021 and the pre-pandemic lending criteria only reinstated at the end of the year. New mortgage advances increased during 2021 to £119m (2020: £108m) but remain significantly below pre-pandemic levels. With a positive profit performance and prudent capital and liquidity positions, a reduction in mortgage lending is not a significant cause of concern for the Society.

The mortgages advanced in the year were spread across a range of products, including standard owner occupied, buy to let, self-build and later life lending. The Board's objective is to achieve a balanced portfolio of mortgage products across a range of borrower segments that generate an interest margin commensurate with the credit risk involved, while maintaining portfolio exposures within agreed limits. After standard owner occupied mortgages, which represented 71% (2020: 72%) of the Society's total mortgage book at the year-end, buy to let mortgages were the next largest segment within the Society's portfolio, representing 26% (2020: 26%).

Credit risk performance

The safety and security of our members' savings has always been of paramount importance. This is embodied in the Society's prudent approach to mortgage lending, resulting in a high-quality mortgage book, as shown in the arrears statistics below and in note 27 (c)(ii) of the accounts.

As noted in the Chief Executive's report, a key aspect of the current and prior financial years was working with members who needed to defer mortgage payments, under the Financial Conduct Authority (FCA) recommended framework, due to the impact of Covid on borrowers' incomes. Over 10% of the Society's borrowers deferred up to six months' mortgage payments, with all such arrangements ending by 30 September 2021 (2020: 38 borrowers were deferring mortgage payments and were not categorised as in arrears).

At 30 November 2021, 21 (2020: 27) borrowers were in arrears with their monthly mortgage payments by one month or more, with balances outstanding representing 0.71% (2020: 0.88%) of total gross mortgage balances. Of the borrowers in arrears, five borrowers were in arrears by 12 months or more (2020: two), with balances outstanding of £0.90m (2020: £0.38m), arrears of £0.10m (2020: £0.03m) and individual impairment provisions held of £0.12m (2020: £0.06m). There was one property in possession at 30 November 2021 (2020: none). To support borrowers during the Covid situation, the FCA did not permit the possession of properties from March 2020 until 1 April 2021.

The continued low level of mortgage arrears during the Covid pandemic is in part due to the government support provided to borrowers and employers, including the mortgage payment deferral, furlough and business loan schemes. With the reduced number of arrears cases within the mortgage book over the year, and no accounts deferring mortgage payments at the year-end, the impairment provision held against loans and advances to customers was reduced to £0.55m (2020: £0.66m). The furlough scheme ended on 30 September 2021 and the Board expects the number of arrears cases to increase over the coming months. The Board continues to monitor this situation closely and will adjust the impairment provision as necessary.

John Mulvey
Chief Financial Officer

15 February 2022

Environmental, Social and Governance report

As you would expect, your Society is run for the benefit of its members. Having experienced a successful financial year, we are well-positioned to fulfil our purpose of reinvesting our profit back into the development of our people, operations and the service we provide to our members, as well as sharing our success to benefit our local communities in Leicestershire and Warwickshire.

Environmental

The financial services industry has a crucial role to play in the transition to a lower carbon economy and the Society fully understands and embraces this challenge.

The UK government has set a net zero goal by 2050. Your Society understands that we have a responsibility and a role to play in the climate change and sustainability agenda. Our individual actions contribute towards the activity required to tackle the challenges of global warming and the risks this presents to our members, our communities, our colleagues and our business. To support this agenda, we have taken a number of steps to identify ways we can support our members as well as reducing our own carbon footprint.

This diagram shows the Society's framework for addressing the issue of climate change and includes four key areas of focus:

1. Our Carbon Footprint
Focus on the energy efficiency of the Society

- Carbon footprint
- Changes to operational behaviours
- Changes to buying behaviours
- Improving the energy efficiency of the premises
- Target setting

2. Regulatory Reporting
Focus on changes to reporting requirements

- Non-financial reporting
- Meeting the expectations of the regulators

HINCKLEY AND RUGBY BUILDING SOCIETY

3. Existing Mortgage Book
Focus on climate change risk represented by existing properties in mortgage book

- Risk assessment
- Data capture methodology and services
- Future housing market risk
- Future lending policy

4. Green Finance
Focus on promoting improved energy efficiency in existing housing stock

- Green mortgages
- Green further advances
- Consumer education
- Appropriate partnership

In August 2021 we identified our own scope one and two emissions, relating to those arising from owned vehicles and electricity and gas usage, for our head office and branch network. Using the information learnt from this review and the strength and experience of the volunteers on our Environmental Committee, we are looking at ways we can reduce our own impact further.

We also continue to build on our recycling programme by collecting empty crisp packets which are donated to local schools who can exchange through the TerraCycle scheme for financial contributions. Additionally, in April we celebrated World Earth Day and the Society recognised the activities and efforts of our staff by planting 146 trees across the country.

As a responsible business, we also understand the opportunities we have to educate and influence others. Colin Fyfe continues to chair the BSA Green Finance Taskforce and, in this capacity, spoke at an online COP26 seminar titled 'Decarbonising the UK's housing stock: Finding the £250 billion' and in August, Hinckley & Rugby became the first UK building society to provide Carbon Literacy training to their staff when 11 members of the workforce undertook in-depth training by APSE, an external company, and were deemed competent by the Carbon Literacy Project.

In addition, the Society is also actively investigating ways to communicate and educate its members. Over the summer, we launched the first of our Green Finance products which is aligned to the Green Homes Finance Principles, and we pledge to continually review and adapt all of our Green Finance products as the market changes so we may better meet the needs and demands of our members.

At Hinckley & Rugby, we decided that we need to test what works and how to build awareness and understanding. To do this we have linked with two external companies who both specialise in identifying retrofitting opportunities in homes. We have a "test and learn" pilot scheme underway with both companies which will help us understand how we can better work and communicate with our members and support them on their individual journeys.

Social

Hinckley & Rugby Building Society is passionate about making an impact on societal matters such as wellbeing and mental health, and diversity and inclusion.

The impact of the Covid-19 pandemic has meant that the last 24 months have been extremely difficult for many people. Globally, we have seen a rise in mental health-related illness. Your Society wanted to ensure that, during these difficult times, our employees and our members felt supported. Following the announcement of the first lockdown, our branches made regular contact with our members to check in and ask the all-important question "How are you today?". In addition, our HR team and Mental Health First Aiders made calls to our employees as a reminder that we are all in this together and your health matters.

During 2021 we implemented our very first wellbeing and mental health strategy, which consists of various training and awareness workshops for our employees, and extended the portfolio of support available to our employees, including additional Mental Health First Aiders, a wellbeing platform and enhanced support programmes through fully qualified third parties. We have championed raising awareness of wellbeing, engaged and partnered with local wellbeing charities to raise funds, and continue to break down the stigma surrounding mental health.

In more recent months, we have begun to engage with our workforce to understand what diversity and inclusion means to them. As we move into 2022, we will further develop our diversity and inclusion strategy. Your Society is continuously driving towards a culture where everyone feels supported, included and comfortable to bring their whole selves to work.

We will also be continuing to look for opportunities where we can support our local communities with these important issues.

Environmental, Social and Governance report continued

Governance

The Board's Corporate Governance report is set out on page 13.

Using the theme of *sharing* to guide our purpose, 2021 has provided many opportunities for us to work for the good of our communities.

Mindful of government guidance, and in the interests of our members' safety, our AGM was held virtually for the second year in succession. We encourage occasions to hear directly from our members and were pleased that, as a result of your votes, we were able to donate £2,000 each to both the Hinckley Area Foodbank and Rugby Foodbank.

Those of you who regularly visit our branches will be aware that, in August, we changed our opening hours as part of our community strategy. The objectives here were threefold. For members, this step extends our convenient private appointment service. For staff, we can invest more time in training and development. For the local area, our teams are now available to participate in a greater number of community activities. We know that teaching children and young people about finances means they're more likely to save money, have a bank or savings account, and be confident with money management. So, as a priority, in the new year, Society staff will be visiting schools to share our knowledge and provide financial education to pupils in Leicestershire and Warwickshire.

Indeed, our partnerships within the towns and villages we serve are central to the success of our community strategy. We believe that the two most pressing social issues at this time are the challenges of mental wellbeing and good financial health.

We have continued our popular financial education workshops with WizeUp, offering virtual sessions to older children, to support their preparations for their life after school. In 2022, we will celebrate 10 years of partnership with WizeUp and our commitment remains firm, with plans to add a new school to those already benefiting from this initiative. As the first building society to work with Ed Flack of WizeUp, we are heartened to know that he is now teaming up with nine other societies across the UK, bringing essential life skills to over 6,000 young people during the year.

A group of staff have shared their skills with North Warwickshire & South Leicestershire College during 2021, offering sessions on employment awareness and speed networking, with Colin Fyfe acting as an enterprise advisor to the college.

Our staff have been fulsome in their support of LAMP, a local independent mental health charity. Colin Fyfe chairs the Lamp Business Club, which has over 50 members, and Carolyn Thornley-Yates, the Society's Head of Mortgage Proposition and Distribution, is a trustee. In addition, over a third of our staff joined in with LAMP's Around the World 5K Challenge, which resulted in raising over £1,000 to support their advocacy for people in Leicester and Leicestershire.

In addition, Colin Fyfe mentors the joint Chief Executives of RCC (the Rural Community Council), a Hinckley-based charity which serves the borough and supports loneliness and suicide prevention in rural areas.

As in 2020, our work with Leicestershire Cares continued energetically, albeit virtually, with remote interviews and career talks. Where physical volunteering was permitted, staff helped out at local foodbanks. Additionally, the Society and staff donated to the Collect 4 Christmas and Bags of Hope appeals, which provide festive gifts to those in need. 2021 will mark 10 years of partnership with Leicestershire Cares, cementing our longstanding commitment to their mission of ensuring that 'no one is left behind'.

In September, our contributions were recognised at the annual Leicestershire Cares Awards, in which the Society and its staff were nominated in six categories and won four awards:

- Winner: Company of the Year 2021
- Winner: Education Volunteer of the Year – Evan Crosskey, New Lending Senior Manager
- Winner: Outstanding Contribution to work with NEET (Not in Education, Employment or Training) Young People
- Winner: Outstanding Contribution to Interview Technique
- Finalist: Volunteer of the Year – Carla Loughrey, Senior Marketing Executive
- Finalist: Outstanding Contribution to Education

Colin Fyfe continued his weekly *Money Matters* feature on local radio station, Fosse 107. In addition, we extended our partnership by running a successful *Pay Your Bills* competition, in January 2021. This provided 20 winners with a financial boost to start the year. We also ran two on-air campaigns – *Mental Health Awareness Week* in May and *Talk Money Week* in November – which drew together our partners from LAMP and WizeUp to share their advice for listeners.

Despite the ongoing disruption caused by Covid-19, our staff have risen to the challenge and continued to share their time, knowledge and skills. In 2021, Society staff clocked up 844 volunteering hours, representing a 31% increase on the previous year. Through various fundraising activities across our head office and branches, our staff have collected £5,174 for a range of charities and good causes. This effort is the true embodiment of our role as a responsible business and has attracted recognition and accolades. The Society itself has donated £146,394 to charities during the year.

Across the branch network, our Rugby branch marked 160 years of serving local residents. A celebration event was held, with the local MP attending, at which we launched our in-branch foodbank collection point. We also used the opportunity to donate £160 each to five local organisations: St Matthew and St Oswald's Church, The Bradby Club, the Hill Street Youth and Community Centre, the Hoskyn Centre and Midlands Air Ambulance.

At head office, our commitment to increasing digital services for our members made progress. We carried out an upgrade to our core operating system, improved our telephone systems and introduced live chat to our website, enabling members and intermediaries to contact us more easily. We also completed our project of digitising our mortgage records. Our future digital plans include development of a new Society website, as well as ongoing work to introduce online mortgage applications and development of our online savings services.

As a mutual, the commitment to sharing our knowledge, skills and resource is evident inside our walls and out in our communities. In 2021, we continued to embed our ESG strategy, laying strong foundations to build on in the coming years.

Corporate Governance

A revised UK Corporate Governance Code (the Code), together with Guidance on Board Effectiveness, was issued by the Financial Reporting Council in July 2018. The Society is committed to effective corporate governance and this Corporate Governance report sets out the Society's approach to governance in practice and how decisions are made to promote the long-term sustainable success of the Society for the benefit of its members and other stakeholders. The Society is not required to fully comply with the UK Corporate Governance Code, but the Board pays due regard to it when establishing and reviewing the Society's own corporate governance arrangements. This report sets out how the Society applies the principles and provisions in the Code so far as they are relevant to building societies.

Board leadership and company purpose

Code Principles

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity lead by example and promote the desired culture.

C. The board should ensure that necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective management with, and encourage participation from, these parties.

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Society's Board is collectively responsible for the long-term success of the organisation. Its principal functions are to determine the risk appetite, strategy and policies of the Society, to establish an effective risk management and internal control framework that enables risk to be assessed and managed, and to review business and management performance. In addition, the Board has a duty to ensure that the Society operates within its rules and relevant legislation and regulation.

The Board comprises an independent non-executive chair, five other independent non-executive directors and three executive directors. The non-executive directors constructively challenge and help develop proposals on strategy. The Board usually meets 11 times per year, together with at least one further day focused on the Society's strategy and business model. The non-executive directors meet without the executive directors present at least twice per year.

The Board reviews the Society's strategy at least annually, and approves a Business Plan which sets out the Society's purpose, values and strategic objectives, and includes financial and operational plans detailing how these will be achieved. This includes details of the financial and human resources required, and details of development projects and expenditure to enhance the Society's operations and services to its members both in the short and longer term.

Performance against plans is monitored by the Board monthly through financial, operational and risk information. The Board assesses and monitors the Society's culture, and its alignment to the strategy, through a combination of key performance indicators, which are reported monthly, and periodic staff surveys.

The Board's governance manual sets out the matters which are reserved to it and those it has delegated authority for to four Board committees as described below.

Audit and Compliance Committee

The Audit and Compliance Committee comprised three non-executive directors and during the year was chaired by David Woodward. The committee deals with all matters relating to financial reporting systems and controls, internal control and risk management systems, and regulatory compliance. The committee meets at least five times per year, with one meeting dedicated to the review and approval of the Annual Report & Accounts. The Society Chair, the executive directors, the Chief Risk Officer, and representatives from the external and internal auditors and the Society's compliance function attend by invitation.

Risk Committee

The Risk Committee comprised three non-executive directors and during the year was chaired by Gary Wilkinson. The committee is responsible for oversight on behalf of the Board of the Society's risk management framework, including the identification of risk, the monitoring of risk positions against appetite, and the Society's strategy for liquidity and capital management. The committee meets at least four times per year. The executive directors, the Chief Risk Officer and Head of Underwriting attend by invitation.

Corporate Governance continued

Nomination and Governance Committee

The Nomination and Governance Committee comprised three non-executive directors and during the year was chaired by Colin Franklin. The committee is responsible for leading the process for senior appointments, ensuring plans are in place for orderly succession to both the Board and senior management positions, and ensuring that the Board and senior management have the appropriate skills and experience to effectively manage the business and deliver the Society's strategy. The committee meets at least twice a year. The Chief Executive and Chief Risk Officer attend by invitation.

Remuneration Committee

The Remuneration Committee comprised three non-executive directors and during the year was chaired by Geneane Bell. The committee is responsible for determining, on behalf of the Board, the policy and the level of remuneration of the executive directors, senior management and the wider workforce, and for ensuring that remuneration aligns with the long-term interests of the business and incentives towards excessive risk taking are eliminated. The committee meets at least three times a year. The Chief Executive and Head of Human Resources (HR) attend by invitation.

The Board approves the terms of reference of each committee. Through effectiveness reviews and succession planning, the Board ensures its committees have the appropriate balance of skills, experience and knowledge to discharge their respective duties effectively. All Board members have the benefit of appropriate liability insurance at the Society's expense and all have access to independent professional advice if required.

The Board ensures that policies, practices and behaviour throughout the business are aligned with its purpose, values and strategy. Through the committees, the Board reviews and approves the key policies of the Society including those relating to Responsible Lending, Financial Risk Management, Conduct, Remuneration, Health and Safety, Anti-Money Laundering and Counter Terrorism, Conflicts of Interest, Whistleblowing, Data Governance and Security, Business Continuity Planning, Operational Risk, Operational Resilience, Third Party and Outsourcing and the Senior Management Regime.

Engagement with members and other stakeholders

The Society seeks the views of members in a variety of ways including branch open days, informal engagements and attendance at the Society's Annual General Meeting. Due to Covid-19, face-to-face meetings have been postponed, but in 2022 the Society looks forward to reintroducing an in-person AGM and the Members' Panel.

Open days are held at branch offices where directors are available to answer questions from members. Non-executive directors and the Senior Independent Director have, during the year, visited branches and head office departments for open sessions with staff and members.

All members of the Board are normally present at the AGM each year and are all available to answer questions, particularly the chair of each committee. Votes on AGM resolutions can be cast online as well as by post, by proxy or in person and the results of all votes at the AGM are made available online. The impact of Covid-19 prevented attendance in person at the 2021 AGM, but members were encouraged to submit questions in advance of the meeting, or attend virtually to ask questions on the night. All questions and responses were made available on the Society's website thereafter.

The Society engages with its members through post-sale surveys, reviews completed through Smart Money People, which undertakes consumer reviews on behalf of the Society and other financial services providers, social media and the Society's website.

The Board engages with the Society's staff in a number of ways, including regular staff meetings and staff surveys, and this will be enhanced in 2022 following the establishment of a Staff Engagement Group to improve communication and obtain feedback and ideas from staff. The Society also has procedures in place ensuring that the views and concerns of staff are considered.

Regular meetings and calls involving all staff and non-executive directors have been held by the Chief Executive to communicate the Society's progress against objectives, new developments and initiatives, and changes across the business. The provision of health and safety information has been an important aspect of these calls during the year. Staff have the opportunity to ask questions at or after these meetings.

Non-executive directors attend *Ask 3* meetings during the year to communicate key messages to all staff and, given many head office staff continue to work from home during the Covid pandemic, this has been an additional way to obtain staff feedback. The non-executive directors attend interviews to offer insight into their role at the Society and their perspective on delivering the Society's objectives, with the articles shared on the staff intranet. All new members of staff receive a thorough induction programme and during these sessions, non-executive directors are invited to introduce themselves and their role within the organisation. The Society has several trained Mental Health First Aiders who are available to provide all staff with support, where required. Furthermore, a staff wellbeing strategy continues to be implemented to ensure that staff are provided with the appropriate level of support.

Staff surveys have been conducted and the results are reviewed by the Board, with actions taken to improve staff communication and address issues raised. As part of this process, the Board has appointed Barbara Taeed as a designated non-executive director for the purpose of workforce engagement. Commencing in 2022, she will chair a Staff Engagement Group whose membership includes a broad range of staff both in terms of role and seniority. The purpose of the group is to provide a two-way communication process with staff, to seek feedback and ideas on a wide range of Society activities, with the results shared with the executive team, senior management, and the Board. The group will enable staff to contribute to the success of the business and will provide the Board with a further means of communication with the workforce.

The Society has an established Whistleblowing Policy which provides a means for the workforce to raise concerns in confidence. The Society's Chair of the Board is the Whistleblowing Champion. The Board reviews these arrangements annually, to ensure they are proportionate, that any reports arising from its operation are independently investigated, and that any required actions are taken whilst maintaining confidentiality.

Division of responsibilities

Code Principles

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

G. The board should include an appropriate combination of executive and non-executive (and, in particular independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information time and resources it needs in order to function effectively and efficiently.

The Society Chair sets the direction and culture of the Board, facilitating effective contribution from directors, maintaining constructive relations between executive and non-executive directors and ensuring that directors receive accurate, timely and clear advice and information.

The Society's Chair, Colin Franklin, was appointed as an independent non-executive director in June 2015, following a rigorous selection exercise, and was elected by the other members of the Board to become the Society Chair the following year.

The Board comprises six non-executive directors (including the Society Chair) and three executive directors. Non-executive directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. All non-executive directors are considered by the Board to be independent in character and judgement and free of any relationship or circumstance that could interfere with the exercise of their judgement or impede the provision of constructive challenge to management.

The Board has appointed a Senior Independent Director, David Woodward, to provide a sounding board for the Society Chair and to serve as an intermediary for the other directors when necessary. The Senior Independent Director is also available to members if they have any concerns which contact through the normal channels of Society Chair, Chief Executive, Chief Financial Officer or Chief Customer Officer has failed to resolve, or for which such contact is inappropriate.

The offices of the Society Chair and Chief Executive are held by different individuals with their roles set out in their terms of appointment or contract respectively and reflected in job descriptions. The Society Chair is responsible for leading the Board, ensuring its effectiveness on all aspects of its role. The Chief Executive is responsible for managing the Society's business within the parameters set by the Board.

Prior to appointment, an assessment is made of a non-executive director's time commitments, other than those to the Society, to ensure that they can devote sufficient time to Society business. The Chair annually evaluates the ability of directors to commit the time required to properly and effectively fulfil their role, that their performance continues to be effective, and that they demonstrate commitment to the role. The Senior Independent Director assesses the Chair's ability in this regard as part of the annual appraisal of the Chair. The attendance record during the year of directors at Board and committee meetings is set out on page 18. The commitments of the directors are set out in the Annual Business Statement, section 3, Information relating to directors and other officers.

The Society continuously improves management information to assist the Board and its committees in discharging their terms of reference, and each committee annually reviews the quality, sufficiency and timeliness of this information.

All directors have access to the advice and services of the Society's Company Secretary who is responsible for ensuring compliance with all Board procedures.

Composition, succession and evaluation

Code Principles

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K. The board and its committees should have a combination of skills, experience, and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The Nomination and Governance Committee is responsible for Board appointments and succession planning, ensuring that the Board comprises sufficient directors who are independent, fit and proper and who can meet their collective and individual responsibilities effectively.

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. As with all recruitment, all candidates, irrespective of background, are always treated respectfully and inclusively. The Nomination and Governance Committee considers the balance of skills and experience on the Board as required by the Society's business strategy using a skills matrix and having regard to the Board's succession plans. A description of the role and capabilities required for a particular appointment is prepared in the light of that evaluation. All appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

Diversity and inclusion matter at the Society and we are proud to be a signatory of the Women in Finance Charter, a government initiative designed to improve gender diversity in senior positions within the financial services sector. The Society has, for several years, maintained a gender balance across all levels of leadership within the organisation, including at Board level and Executive Committee level. This has been achieved whilst pursuing a strategy of appointing the right individuals for roles, regardless of gender. When the Society

Corporate Governance continued

signed up to the Charter in September 2018, we had 50% female representation. At 30 September 2021, eight females held positions at Board and Executive Committee level out of a total of 15 (53%). As part of our commitment to the Women in Finance Charter, and, in the context of our strong position in terms of gender balance, we have set a floor for gender diversity at 40% of female or male representation at Board and Executive Committee level. We will monitor and report our progress against this measurement within this report and on the Society's website.

The Society is also proud to have signed up to the Disability Confident scheme, which supports employers to challenge thinking and attitudes toward disability and improve the recruitment and retention of disabled workers. In addition, the Society has pledged to remove barriers to employment for disabled people, as well as those with long-term health conditions, and to ensure they are offered the chance to fulfil their potential. The Society's commitment to positively change attitudes, behaviours and cultures under the scheme is the same, whether we are looking to recruit new staff or to make adjustments for an employee who has become disabled during their career.

The Board normally advertises externally or engages the services of an external consultancy for candidates for Board appointments. All directors, both on appointment and thereafter, must meet the tests of fitness and propriety laid down by the PRA and the FCA and are required to be authorised by the regulators under the Senior Managers Regime to undertake their respective roles as directors.

The committee considered succession plans for the Board and senior management during the year. As with appointments, succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The biographies of the directors are shown on page 24, demonstrating that the Board has a strong mix of skills and experience relevant to the Society and its strategy.

The Society's rules presently require that all directors be submitted for election at the AGM following their first appointment to the Board or at the AGM in the following year, where they were appointed between the end of the Society's financial year and the AGM itself. Thereafter, directors are required to seek re-election every year.

All new Board members receive a full, formal and tailored induction when they join the Board. This includes directors' responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and the local market, an overview of the regulatory requirements and details of significant current issues for the industry, the Senior Managers and Certification Regime, attendance at a number of Board and committee meetings, meetings with members of the Executive Committee, and details of key financial, operational, people and risk related matters specific to the Society. During the year, Board members have continued to meet with head office departments and branches as part of their familiarisation with the business and to engage with members and staff. Furthermore, all new senior managers go through a comprehensive handover process to ensure they are fully aware of the specific responsibilities relating to their individual role.

All directors take part in an ongoing programme of training and professional development designed to keep their knowledge and skills up to date and ensure they have appropriate knowledge of the Society and access to its operations and colleagues. This is done primarily through internal and external presentations and e-learning training modules. During the year, training included TPT Pension Training, Sopra presentations, and various CPD sessions provided through the BSA. All directors also undertook e-learning training modules on the Senior Managers and Certification Regime, Treating Customers Fairly and Information Security. Directors also participate in external courses and conferences where relevant.

During 2021, an externally facilitated Board effectiveness evaluation was conducted. The members of the Board were interviewed and assessed to review how they work together and achieve their objectives as members of the Board of the Society. The report concluded that the Board was a strong, professional and experienced Board that provides sound strategic guidance and oversight for the Society. Key areas for 2022 will include developing governance structures and strengthening the underlying processes to improve efficiencies and areas of focus for the Board.

The Board and committees evaluate their own overall performance annually and the Chair of each acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and its committees. Acting on the main action arising from the end of 2020 year's evaluation, during 2021 a change in membership of the committees was embedded. During the year, the Society moved from all non-executive directors being members of the Audit and Compliance (excluding the Society Chair), Risk, Remuneration and Nomination and Governance Committees, to three non-executive directors being members. The composition of each committee was determined with due regard to the need to ensure there is an appropriate combination of skills, experience and knowledge to enable each committee to discharge its terms of reference.

The performance and effectiveness of each non-executive director and the Chief Executive is evaluated by the Society Chair, while the Senior Independent Director evaluates the performance of the Society Chair, taking into account the views of other directors. The Chief Executive evaluates the performance of the other executive directors, taking into account the performance objectives set at the beginning of the year or on appointment. The evaluations include consideration of training and development requirements to ensure directors continually update their skills, knowledge and understanding of the Society's business. Annual evaluations for 2021 took place on this basis and it was concluded that each director continues to make an effective and valuable contribution to the Board and to demonstrate commitment to the role.

Audit, risk and internal control

Code Principles

M. The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N. The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

O. The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

The Board has established the Audit and Compliance Committee, with responsibilities relating to external and internal audit functions and the Annual Report and Accounts. Details of the role of the committee and its work during the year are set out in the Audit and Compliance Committee report on page 19.

The responsibilities of the directors in relation to the preparation of the Society's Annual Report and Accounts are set out in the Responsibilities of the Directors report on page 29. The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Chief Executive report and Chief Financial Officer's report on pages 4 to 10 provide a detailed review of the Society's business activities and prospects. The Directors' report on page 26 includes a statement that the directors consider that the business is a going concern. The Audit and Compliance Committee report, below, sets out the main areas of accounting judgement considered by the committee.

The Board has approved and monitored the implementation of an enhanced risk management framework to mitigate the significant risks to which it is exposed. The framework comprises a risk focused governance structure, risk appetite statements, risk management policies, and procedures for the identification, measurement and reporting of risks within defined risk limits.

The Board has established committees to oversee the implementation and monitoring of the risk management framework, including the Audit and Compliance Committee, Risk Committee, Nomination and Governance Committee and Remuneration Committee, as described above. In addition, the Society operates management committees with risk management responsibilities, including the Assets and Liabilities Committee, the Conduct and Operational Risk Committee and the Credit Committee, each of which report into the Risk Committee.

The key Board and committee responsibilities in respect of risk management and the internal control framework are:

- The Board approves the overall risk management framework and determines the Society's risk appetite.
- The Risk Committee oversees the risk management framework, including the identification of risk, the monitoring of risk positions against appetite. The committee receives an independent view of each risk category from the Chief Risk Officer at each meeting.
- The Audit and Compliance Committee monitors the effectiveness of systems and controls for all risk categories through independent reports from the Society's Compliance and Internal Audit functions, in accordance with agreed risk-based assurance plans.
- The Assets and Liabilities Committee (ALCO) is responsible for the management of financial risks including liquidity risk, funding risk, treasury counterparty risk and interest rate risk.
- The Conduct and Operational Risk Committee (CORC) is responsible for the management of conduct risk, operational risk and financial crime risk.
- The Credit Committee is responsible for management of retail credit risk.

The Society operates a three lines of defence model for internal control as follows:

- The first line of defence is management within each business area, who are responsible for the identification, measurement and management of the risks within the Society's risk appetite, and ensuring appropriate controls are in place and operating effectively. Management information relating to each risk category is monitored by the ALCO, CORC or Credit Committee.
- The second line of defence is the Society's Governance, Risk and Compliance function, which provides risk management expertise, challenge and support to the Board, management and staff. Independent views are reported to the Board, Risk Committee and Audit and Compliance Committee, based on management information from across the business, external intelligence and bespoke assurance activity in accordance with a risk-based plan approved by the Audit and Compliance Committee.
- The third line of defence is the Internal Audit function, which independently reviews the effectiveness of the internal control environment. The Audit and Compliance Committee approves a risk-based internal audit plan for Internal Audit and receives reports of the results of the work performed.

In addition to the reports received throughout the year from Internal Audit and the Governance, Risk and Compliance function, the Audit and Compliance Committee receives an annual review of internal controls from management. Based on the reports received during the year, the committee concluded that the Society operates an effective system of control. As a result, the Board is satisfied that the Society has sound risk management and internal control systems and that these systems have been in place during the year.

Remuneration

The Remuneration Committee report on pages 21 to 23 details the Board's position on code principles related to remuneration.

Corporate Governance continued

Board and committee membership attendance record

The number of scheduled Board and committee meetings attended by each director, as a member, during the year is shown below. The figures in brackets represent the number of meetings each director was eligible to attend.

Committee members' attendance at Board and Board committee meetings during the year ended 30 November 2021

	Board	Nomination and Governance	Remuneration	Audit and Compliance	Risk
Colin Franklin (Chairman)	10(11)	2(2)	3(3)	*	*
Geneane Bell	11(11)	*	3(3)	*	7(7)
Colin Fyfe (Chief Executive)	11(11)	*	*	*	*
John Mulvey (Chief Financial Officer)	11(11)	*	*	*	*
Barbara Taeed	11(11)	*	3(3)	*	7(7)
Dean Waddingham (Chief Customer Officer)	11(11)	*	*	*	*
Gary Wilkinson	11(11)	*	*	5(5)	6(7)
David Woodward (Senior Independent Director)	11(11)	2(2)	*	5(5)	*
Nemone Wynn-Evans	11(11)	2(2)	*	5(5)	*

*Not a member of this committee.

On behalf of the Board

Colin Franklin
Chairman

15 February 2022

Audit and Compliance Committee report

The Audit and Compliance Committee comprised three non-executive directors (excluding the Society Chair). The biographies shown on page 24 set out the committee members' skills and experience. All members have recent and relevant financial experience, and competence relevant to the sector in which the Society operates.

The committee's terms of reference include the following responsibilities:

- To make recommendations to the Board, for it to put to the members for their approval in general meeting, in relation to the appointment of the External Auditor;
- To approve the remuneration and terms of engagement of the External Auditor;
- To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process;
- To develop and implement policy on the engagement of the External Auditor to supply non-audit services;
- To monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing significant financial reporting judgements contained in them;
- To review the Society's internal financial controls and internal control systems;
- To monitor and review the effectiveness of the Society's Internal Audit function and to appoint and remove Internal Auditors, as appropriate;
- To monitor and review the effectiveness of the Society's Compliance Monitoring function;
- To report to the Board, identifying any matters which it believes require action or improvement, and making recommendations as to the steps to be taken; and
- To report to the Board on how it has discharged its responsibilities.

The committee meets at least five time per year, with one meeting dedicated to the review and approval of the Annual Report and Accounts. The Society Chair, the executive directors, the Chief Risk Officer and representatives from the external and internal auditors and the Society's compliance function, attend by invitation.

The committee meets with representatives of External Audit and Internal Audit without management at least once per year.

The committee undertakes a detailed annual self-assessment and evaluation process, which also evaluates specific aspects of the External Audit and Internal Audit services received. The assessment is completed by the committee members, executive directors and representatives from External Audit and Internal Audit. The assessment is used by the committee to inform its review of the effectiveness of the service provider and audit quality.

External Auditor

The Society's External Auditor, KPMG LLP, was first appointed for the financial year ended 30 November 2017.

The committee is responsible for overseeing the Society's relationship with the External Auditor, including appointment and tendering, terms of engagement and remuneration, assessment of independence and the annual audit cycle.

At the start of the annual audit cycle, the committee undertakes a review of the audit strategy put forward by the External Auditor and receives a formal report on conclusion of the audit, including details of any significant control deficiencies brought to its attention.

The committee is responsible for monitoring the performance, objectivity and independence of the External Auditor, ensuring the policy on provision of non-audit services by the External Auditor is strictly applied. During the year, the External Auditor was engaged to perform assurance work over mortgage assets provided as security to the Bank of England in relation to liquidity and funding facilities utilised by the Society. The committee considered the scope and nature of this work, including the proposed fee, and deemed that it would not impair the independence of the External Auditor.

As noted above, the committee uses a formal annual assessment that evaluates specific aspects of the external audit process.

The formal report received from the External Auditor on conclusion of the audit includes their confirmation of independence from the Society.

Financial reporting

The significant issues that the Audit and Compliance Committee considered in relation to the Annual Report and Accounts were:

- the appropriateness of the accounting policies adopted in the preparation of the accounts;
- the appropriateness of the adoption of the going concern basis in the preparation of the accounts;
- critical accounting judgements as follows:
  - the impairment provisioning methodology for loans and advances to customers. The committee reviewed the key assumptions and judgements contained within the Society's provision model, including probability of default and loss given default calculations for both individual and collective impairment assessments, the appropriateness of overlays applied to the model in respect of the impact of the Covid pandemic on the Society's mortgage loans, and the related disclosure in the accounts. As part of the review, the committee considered the low level of impairment data available, the quality of the underlying mortgage loans and the overall level of the impairment provision;
  - the appropriateness of the estimates and accounting treatment of effective interest income recognition. Interest income on mortgage loans and related fees received and paid are measured using the effective interest rate method. The committee reviewed the approach taken, including the estimation of the expected mortgage product lives based on actual customer behaviour and management judgement;
  - the appropriateness of the use of hedging accounting in respect of interest rate swaps used to hedge fixed rate mortgage and savings products against changes in interest rates; and
  - the appropriateness of the carrying value of the defined benefit pension scheme obligation and surplus, based on assumptions advice received from an independent actuary.

Audit and Compliance Committee report continued

The committee undertook a comprehensive review of the Annual Report and Accounts with a focus on ensuring that appropriate weight is given to bad news as well as good, the description of the business model, the strategy, risks and performance is appropriate, the disclosed risks are genuinely the principal risks the Board is concerned about, and that important policies, judgements, transactions and significant changes from prior periods are highlighted. The committee concluded that there were no material adjustments required to the accounts.

Internal Auditors

The Society's outsourced Internal Audit function is provided by Deloitte LLP.

The committee approves the proposed Internal Audit annual audit plan and reviews it at each meeting to ensure it remains focused on the significant risks to which the Society is exposed and also covers the key areas of the business over a four year cycle.

At each committee, Internal Audit reports completed since the previous meeting are reviewed and management's responses and timescales for remedial work are challenged.

In accordance with the Chartered Institute of Internal Audit's (CIIA) recommendations on "Effective Internal Audit in the Financial Services Sector" the Internal Auditors present an annual report to the committee, setting out their conclusion on the effectiveness of the control environment and the independence and adequacy of resourcing of Internal Audit during the period covered by the annual audit plan. This report informs the committee's view of the effectiveness of the internal audit process and audit quality.

On behalf of the
Audit and Compliance Committee

David Woodward
Chair of the Committee

15 February 2022

Remuneration Committee report

This report details the Society's approach to pay for the period 1 December 2020 to 30 November 2021. It sets out the Remuneration Policy and remuneration details for the executive and non-executive directors of the Society. This year, one of the key focuses of the Society's people strategy has been our approach to employee remuneration.

During the year, the committee has overseen the embedding of the Society's performance management framework, introduced in the prior year, with the aim of enabling merit based salary and discretionary annual bonus awards, and progress with a salary benchmarking exercise.

In preparing this report, the Society has regard to the principles and provisions relating to remuneration in the UK Corporate Governance Code and ensures that the Society's Remuneration Policy is compliant with the Financial Conduct Authority's Remuneration Code and Remuneration Part of the Prudential Regulation Authority's Rulebook.

The report is split into two sections: i) the Statement by the Chair of the Remuneration Committee; and ii) the Directors' Remuneration report.

i) Statement by the Chair of the Remuneration Committee

The Society's remuneration processes are aligned to the Society's long-term business strategy, objectives, and risk appetite, and are consistent with the interests of the Society's members, encouraging a good culture, appropriate behaviours and contributing to the long-term success of the Society. The Society must attract and retain high calibre individuals to fulfil member requirements, who must be fairly rewarded for directing, managing, and working within our branches and departments.

Meetings of the committee are held at least three times per year, with additional meetings held as necessary for the committee to fulfil its responsibilities. The committee met three times during the year. The committee comprises three non-executive directors of the Society, including the Society's Board Chairman. During the year, the committee was chaired by Geneane Bell who has considerable experience in remuneration and people matters. The Chief Executive and Head of HR, and other executives, also attend by invitation, but are not members of the committee.

An internal effectiveness review conducted in November 2021 concluded that the Remuneration Committee operated effectively and that committee members had a sufficient balance of skills and experience.

The principles of the UK Corporate Governance Code (the Code) relevant to remuneration are principles P, Q and R. Each principle, and the Society's response, are set out below.

Code Principle

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

The Society's remuneration policies and practice are designed to support the strategy and promote the long-term sustainable success of the Society. The committee exercises independent judgement and discretion when authorising remuneration outcomes, taking account of Society and individual performance and wider circumstances, and underpinned by the objective to promote the Society's long-term sustainable success. All remuneration schemes and policies are flexible enough to enable the committee to use discretion to override formulaic outcomes.

The Society's Remuneration Policy is reviewed by the committee annually. In setting remuneration, the committee takes into consideration salaries payable and other benefits provided to executive directors and other senior management of building societies, that are similar in size and complexity, and other relevant organisations. The committee did not use external consultants to assist in this process during the reporting period. The committee ensures that variable remuneration does not undermine the objectivity of the Risk and Compliance functions.

Key matters considered by the committee during 2020/21 to promote the long-term sustainable success of the Society included:

- Remuneration Policy
  The committee reviewed and approved the Remuneration Policy in the year. The policy aims to align executive remuneration with the Society's strategy, and promote long-term sustainable success.
- Colleague recognition
  2021 has been another unusual and challenging year and the Covid pandemic has again highlighted the enormous commitment and contribution of our people. The committee is extremely appreciative of how colleagues have enabled the Society to support our members, particularly colleagues working to ensure the Society's branches remained open for business.

  The committee, and the wider Board, is proud that during the pandemic all employees remained in paid employment, with no employees furloughed.

  The committee held discussions on how to reward colleagues for their hard work and dedication during the year. It was agreed that for the vast majority of our employees to enjoy an extended break over Christmas and New Year, all the Society's offices should close on Christmas Eve and New Year's Eve, as a thank you and to allow all employees to spend time with their friends and family. Essential services were maintained on those days and staff that provided this cover received similar time off in lieu.
- Performance related pay
  The balanced scorecard approach approved by the committee, for individual and Society performance management, was embedded for all the Society's employees, including the executive directors during 2020/21. The Society's valued behaviours were updated, in collaboration with employees and people leaders. These revised behaviours, applicable from 1 December 2021, are Teamwork, Courage to challenge, Taking responsibility and Going the extra mile.

  The balanced scorecard is used to assess the performance of the Society, in the areas of Customer and community, People, Operational excellence, Financial, and Governance, risk and compliance. The objectives in the scorecard reflect the Society's strategic priorities, and performance measures are set each year for the Society, its departments, and individual employees. The Remuneration Committee has absolute discretion to reduce any bonus pot available if it decides that acceptable standards or performance levels have not been met. This is consistent with the Society's risk appetite and is designed to support the overall financial stability of the Society and its strategic priorities.

Remuneration Committee report continued

In respect of the current financial year, the Remuneration Committee agreed:

- A cost of living pay increase of 1.00% effective from 1 December 2020; and
- A bonus pool for all staff, including the executive directors, based on the performance of the Society against its objectives during the year. Bonuses will be distributed in March 2022 and allocated to staff according to each individual's performance against agreed balanced scorecard objectives and behaviours. The amount of the bonus pot to be distributed is solely at the discretion of the Remuneration Committee. The committee's view is that the scale of the bonus payment is unlikely to lead to any behavioural risks that can arise from target-based incentive plans.

In respect of the next financial year, the Remuneration Committee agreed that all employees would receive a 1.25% cost of living pay increase effective from 1 December 2021. In March 2022, a further increase equivalent to 1.00% of total salaries will be paid to eligible employees and will be apportioned based on performance. The cost of these salary increases will be reflected in next year's annual report and accounts.

- Salary benchmarking
  As part of the ongoing people strategy, and in order to create an appropriate but attractive pay system, the Society carried out a salary benchmarking exercise across all job roles in the prior year. The research gave an indication of how our salaries relate to industry comparable roles, particularly those of our lower paid staff.

  The Society further increased the salaries for specific job roles during the year and the committee expects to continue this work over the coming years. This will ensure that the Society is able to reward our valued employees and attract and retain high calibre individuals. The Society has committed to carrying out an external benchmarking exercise every three years.

- Diversity and inclusion (D&I) and environmental, social and governance (ESG) factors
  Whilst the Society is not legally required to disclose gender pay information, with fewer than 250 employees, the committee is aware of the Society's responsibilities in relation to D&I, and a D&I strategy is being developed to inform this. We are proud to be signatories of the Women in Finance Charter and have high levels of women in leadership positions.

  The committee is also aware of the Society's responsibilities in relation to ESG factors, including climate change, and will consider how alignment with these factors can be reflected in remuneration policies to ensure they are embedded throughout the Society.

Code Principle

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

The Remuneration Committee reviews the Society's Remuneration Policy annually. The Chief Executive attends by invitation, but takes no part in the discussion of his own remuneration. The committee reviews remuneration for the Chairman of the Board, executive directors and senior managers annually using data from comparable organisations, and takes advice from external consultants when appropriate.

The terms of reference for the committee are available on the Society's website, and each committee meeting is formally minuted, and the minutes are distributed to all committee members. The Chair of the committee reports on the key matters covered at the following Board meeting. Committee attendance records for the year to 30 November 2021 are set out on page 18.

The remuneration of the non-executive directors, other than the Chairman of the Board, is determined annually by the Chief Executive and the Chairman of the Board. No director or individual is involved in setting their own remuneration.

Code Principle

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

It is the responsibility of the Nomination and Governance Committee to identify Material Risk Takers (MRTs). The Remuneration Committee is responsible for setting the remuneration of the MRTs to ensure that their remuneration does not encourage inappropriate risk taking, and also to ensure they are rewarded appropriately and fairly to encourage enhanced performance and promote the long-term success of the Society. The Remuneration Committee maintains a list of the Society's MRTs, detailing their respective remuneration.

ii) Directors' Remuneration report

Details of directors' remuneration can be found in note 9 of the accounts and provides, for our members, details of the basic salary, variable pay and benefits earned by directors in the year to 30 November 2021. Details of the Remuneration Policy applied to directors are set out below.

Policy for non-executive directors

Non-executive director fees are reviewed annually by the Chief Executive and the Chairman of the Board. This review is based on comparable data from other building societies and similar financial service organisations, and performance reviews. No director or individual is involved in setting their own remuneration.

Remuneration comprises a basic fee, with supplementary payments for committee Chairs. Non-executive director fees are not pensionable, and the individuals do not participate in any incentive schemes or receive any other benefits.

The remuneration of the Chairman of the Board is reviewed on an annual basis by the committee, without the Chairman present, again using comparable external data.

All non-executive directors have formal contracts of service. All appointments are subject to a notice period of three months.

Policy for executive directors

The remuneration for executive directors reflects responsibilities and roles within the Society. The overall policy of the Board, as recommended by the committee, is set out below:

- the remuneration of executive directors (consisting of basic salary, performance related bonus, pension arrangements and other benefits) should be competitive with those of other comparable organisations in the financial sector, in order to attract and retain high calibre individuals with the necessary skills and experience for the Society to succeed;

- part of the remuneration should be based on the Society's balanced scorecard performance in terms of financial, business and service performance compared to a range of objectives (including compliance with the Board's risk appetite), so as to encourage and reward behaviours which are in the long-term interests of the Society's members and other stakeholders; and
- performance reviews of the executive directors should be carried out at least annually, to assess their performance in meeting individual and strategic objectives.

The Chief Executive is the Society's highest paid employee, and no employee earns more than any executive director.

The committee treats any departing executive directors fairly, and is careful to consider the interests of members and ensure that there are no rewards for failure. Executive directors are entitled to be paid their basic salary and contractual benefits (including pension contributions) during their notice period. The Society has the discretion to pay these as a lump sum payment in lieu of notice.

Basic salary

The Society's reward strategy for executive directors aims to pay competitive, industry comparable salaries and to recognise individual development and progression through the annual salary and performance management review processes.

Performance related bonus

The executive directors are eligible for a non-pensionable performance bonus, the elements of which reflect the Society's balanced scorecard measures for long-term sustainable success in the areas of customer and community, people, excellence, financial, risk and compliance, and behaviours.

As a mutual, the Society has no share option scheme.

Pension

Executive directors were eligible to participate in the Society's defined contribution pension plan, which is offered to all employees.

- John Mulvey, Chief Financial Officer, was an active member of the Society's defined contribution pension scheme during the year, with the Society making contributions to the scheme of 14.25% of pensionable salary, with the cost equivalent to 4% of pensionable salary recovered through a salary sacrifice scheme.
- Colin Fyfe, Chief Executive, and Dean Waddingham, Chief Customer Officer, opted to receive cash alternatives in lieu of pension contributions equivalent to 9% of basic salary.

The rate of pension contribution from the Society differs between the executive directors and the other employees, in that executive directors on appointment receive the level of contributions for an employee with 10 years' service, which is not in line with the most recent corporate governance guidelines. The contributions paid are benchmarked against other organisations and the committee is satisfied that the total reward is set at a level which allows the Society to attract a high quality of employees at all levels.

Other benefits

Each executive director is provided with private medical insurance and permanent health insurance.

Service contracts

The general policy for appointments at executive director level includes a contractual notice period of 12 months, with executive directors required to give a notice period of six months. The Chief Executive is required to give a notice period of 12 months.

Member consultation

The committee does not consult with members on its Remuneration Policy but takes into account any feedback given by members. Members are invited to vote on the annual Directors' Remuneration report.

On behalf of the Remuneration Committee

Geneane Bell
Chair of the Committee
15 February 2022

Board of Directors

Colin Franklin
Chairman

I joined the Society in June 2015 as a non-executive member of the Board and became Chairman in 2016. I also chair the Nomination and Governance Committee. Having worked at building societies for 42 years, I have a wealth of expertise and experience in the sector. In my role of Chairman, my focus is to ensure that the Society continues to be run in the best interests of its members, balancing the needs of savers and borrowers without any demands from outside shareholders.

Having lived in the Rugby area all my life, I recognise the important role the Hinckley & Rugby plays in the local community.

Colin Fyfe
Chief Executive

I have been the CEO at Hinckley & Rugby for three years having previously led the Darlington Building Society since 2014.

Prior to that I worked for 29 years in banking with Clydesdale and Yorkshire Banks. I worked in commercial retail and corporate banking, risk management and marketing and held the position of Divisional Director in my last role.

I have supported a number of businesses, charities and social organisations and enjoy sharing my knowledge, skills and experience that I have gained over the years.

Since joining the building society sector I have been very impressed by the values, the customer focus and the collaborative spirit within and between Societies. The building society allows me to focus on what counts and not just what is counted.

Geneane Bell
Non-Executive Director

I have lived in the Rugby area since 2001 and joined Hinckley & Rugby as a Non-Executive Director in July 2013. I was delighted to assume responsibility as Chair for the Society's Remuneration Committee in March 2018.

Since joining I have had the privilege of being able to demonstrate my commitment to the Society's ethics and values of mutuality by supporting numerous community events which the Society has sponsored.

Prior to joining Hinckley & Rugby my career with the Lloyds Banking Group spanned 38 years, the last 15 of which specialised in risk management and compliance with regulation. My last role was Head of Compliance and Conduct Risk for the Lloyds Retail Bank. I have extensive experience of working with the UK's financial services regulators.

John Mulvey
Chief Financial Officer

I joined the Society in March 2020 as Chief Financial Officer. I have over 20 years of experience in the financial services sector, including ten years at Melton Mowbray Building Society where I was the Deputy Chief Executive and Finance Director. I am a chartered accountant, having trained and qualified at KPMG, working within their financial services team auditing banks and building societies.

My role at Hinckley & Rugby involves leading the finance and treasury functions, with responsibility for financial and regulatory reporting, and managing the Society's liquidity, funding and capital positions. I chair the Assets and Liabilities Committee.

Barbara Taeed
Non-Executive Director

I'm a qualified risk management professional and joined the Society as a Non-Executive Director in March 2017. Previously, I worked at the heart of the UK's not-for-profit banking infrastructure with responsibility for the integrity and cyber security of the banking systems in the UK. These systems known as Faster Payments, Chaps, BACS and Cheque & Credit Clearing process all of the UK's inter-bank payments including salaries, standing orders, direct debits and large value payments.

Alongside my role at Hinckley & Rugby, I also run an international academic-based Think Tank which specialises in the measurement and transaction of non-financial values. The work there extends into the technology potential of blockchain, crypto-currencies, the Internet of Things and the cohesive use of Artificial Intelligence. I've spoken on these subjects on BBC Radio 4 and at the United Nations.

I am a strong believer that mutual building societies promote customer choice and improved benefits to consumers. I am proud to serve the Hinckley & Rugby and all of our members.

Dean Waddingham
Chief Customer Officer

I joined the Society in May 2017, having worked within the financial services sector throughout my career, including senior roles within other mutual organisations.

I am a great advocate of the member owned business model, with their inherent customer focus. I am proud to be Chief Customer Officer of the Society. One of my priorities has been moving internal processes from being paper based, providing environmental and cost benefits, and positioning the Society well for the challenges associated with serving our members within a Covid-impacted world. We will be looking to progress this with better digital services for our members over the coming years.

I am committed to continuous learning, particularly important in a time of constant technological change. I am a Chartered Director, Henley MBA graduate, and Fellow of the Chartered Institute of Bankers. I am originally from Leicestershire and live in the county.

Gary Wilkinson
Non-Executive Director

I joined the Society as a Non-Executive Director in December 2014 and am currently Chairman of the Risk Committee. I am a qualified Chartered Accountant and have extensive experience within financial services, in both the building society and banking sectors.

I have held senior positions within Alliance & Leicester (Building Society and plc), Nationwide Building Society, Newcastle Building Society and Cambridge and Counties Bank. I am currently Chief Executive Officer of Redwood Bank, a challenger bank which provides commercial mortgages to businesses and receives deposits from businesses, clubs, charities, and associations.

I am a strong advocate of the benefits mutuality brings to members and customers.

David Woodward
Senior Independent Director

I became a Non-Executive Director at Hinckley & Rugby in January 2015. I am a Chartered Management Accountant and currently serve as Senior Independent Director and Vice Chairman, as well as chairing the Board Audit and Compliance Committee. Since 2018, I have been a trustee and director of the charity Consumers' Association, trading as Which? the UK's Consumer Champion and have just completed a short term with United Lincolnshire Hospitals NHS Trust supporting them as they start to deliver the recovery of services while dealing with wave three of Covid-19.

I have previously held a number of senior financial positions with organisations based in the East Midlands, including Express Dairies, Midland Mainline and National Express. I also served as a Non-Executive Director of Lincolnshire Community Health Services NHS Trust for five years.

I remain passionately committed to serving members to the best of my ability.

Nemone Wynn-Evans
Non-Executive Director

I joined the Society as a Non-Executive Director in March 2017.

I live in Warwickshire and I am a Fellow of the Chartered Institute of Securities and Investment, also holding an MBA from Cranfield School of Management.

My background is in the equity capital markets sector of the City of London, including as a former Finance Director on the main board of a stock exchange, having begun my career in corporate finance and broking.

I believe that mutual, member-owned firms have an important role to play in financial services and I am also the Chair of the Board of a mutual friendly society in the savings and insurance sector.

I have other roles at a private investment office based in the Midlands, and at a renewable energy services provider.

Directors' report

The directors are pleased to present their Annual Report and Accounts for the year ended 30 November 2021.

Business objectives

The principal purpose of the Society is that of making loans which are secured on residential property and are funded substantially by its members. The primary business objectives are to continue to promote savings and home ownership through competitive rates of interest and high quality service.

Business review

A full review of business performance, including key performance indicators, can be found within the Chief Executive's report on page 4 and the Chief Financial Officer's report on page 7.

Financial risk management objectives and policies

The Board has implemented a risk management framework to mitigate the financial and operational risks to which it is exposed. The framework comprises a risk focused governance structure, risk appetite statements, risk management policies, and procedures for the identification, measurement and reporting of risks within defined risk limits.

The Board has established sub-committees to assist in the implementation and monitoring the risk management framework, including the Audit and Compliance Committee, Risk Committee, Nomination and Governance Committee and Remuneration Committee. In addition, the Society operates management committees with risk management responsibilities, including the Executive Committee, which reports directly to the Board, and the Assets and Liabilities Committee (ALCO), Conduct and Operational Risk Committee (CORC) and Credit Committee, which report to the Risk Committee. Details of each Board committee are set out in the Corporate Governance report and the responsibilities of the management committees are noted below within the Principal Risks and Uncertainties section.

Principal risks and uncertainties

The Society seeks to understand and manage the various risks that arise from its operations. The Covid pandemic has impacted individuals and businesses, including the Society, and has increased the Society's risk profile. The pandemic itself and measures introduced by the UK government in 2020 to support the economy created new credit, operational, conduct, and financial risks. The majority of the support measures were withdrawn towards the end of 2021, and these risks continue to be closely managed and monitored by the Board. The most material impact on the Society relates to credit risk and details of this are disclosed in the Chief Financial Officer's report on pages 7 to 10.

The principal risks facing the Society and the procedures put in place to manage them are described below.

Retail Credit Risk

This is the risk of loss arising from borrowing members failing to meet the contractual obligations of their loan.

Retail credit risk is controlled by a Lending Policy that is approved by the Board, and regularly reviewed by the Credit Committee and Risk Committee. The policy is translated into lending criteria and procedures, which seek to ensure that members only assume a debt that they can afford to repay, thereby safeguarding both themselves and the Society.

Should members find themselves in financial difficulty, the Society has established procedures to support our members and provide them with a personalised plan designed to help get their mortgage back on track.

Possession is always a last resort and will only be pursued if we are unable to reach agreement with a borrower that would return them to an affordable and sustainable position, and have been unable to agree an alternative mortgage exit strategy, such as voluntary sale.

Whether the Society incurs a loss from possession is dependent on the value realised from the security property. The Society monitors the impact of house price movements by carrying out stress testing of its mortgage book to take account of actual and projected movements in house price indices on the expected value of any properties taken into possession.

Details of the Society's mortgage arrears are given in the Chief Financial Officer's report on pages 7 to 10. Further details of the Society's approach to retail credit risk are given in note 27 (c)(ii) of the accounts. A breakdown of the Society's impairment provision against loans and advances to customers is reported in note 15 of the accounts.

Treasury counterparty risk

This is the risk of loss arising from a treasury counterparty being unable to meet their financial obligations to the Society.

The Society's Financial Risk Management Policy, which is approved by the Board and regularly reviewed by ALCO and Risk Committee, sets out the criteria applicable to treasury investments. The policy sets out the types of financial instrument the Society can hold and the counterparties the Society can invest with, along with applicable asset class, sector, and counterparty limits.

Treasury counterparty exposures and related limits are monitored by ALCO each month. Nearly all the Society's liquid assets are currently held on deposit with the Bank of England, reducing the level of counterparty risk to which the Society is exposed.

The Society has no provisions for loan impairment against any treasury counterparties. Further details of the Society's approach to treasury counterparty risk are given in note 27 (c)(i) of the accounts.

Strategic risk

This is the risk of loss or reduction in profit arising from the Society's agreed strategy or failure to achieve planned objectives. It can be caused by competitive pressures, deteriorations in the economy, or changes to legislation. The risk has the potential to impact the financial strength of the Society and its ability to generate sufficient underlying profitability to keep the business viable.

The Society mitigates this risk by preparing a business plan that it believes to be robust and achievable, and by stress testing this plan to assess the impact of various adverse market conditions. In all stressed conditions, the Society aims to ensure that its capital and funding positions remain strong and that its performance falls within the boundaries specified within its stated risk appetite.

Management of this risk is a key part of the Society's ongoing strategy to ensure that it operates in sectors of the market where it has the expertise and the customer franchise to be able to price its products appropriately. Pricing decisions on all mortgage and savings products are individually assessed to ensure they are consistent with the Society's overall profitability objective, which is to maintain the sustainability of the Society for the benefit of its members.

Change management risk

This is the risk of loss, reduction in profit or failure to meet legal, regulatory or customer service standards arising from ineffective or inefficient implementation of change within the Society.

This risk is managed using a formal change management framework approved by the Board. The framework includes a Change Management Committee, that reports into CORC, which provides oversight over the change agenda. The Committee ensures that approved projects contribute to the agreed business objectives, sufficient resources are available to complete each project, project risks are raised and appropriately addressed, all projects are monitored through to completion, and post-implementation reviews are undertaken so that the Society benefits from any lessons learned.

Liquidity risk and funding risk

Liquidity risk is the risk that the Society does not have sufficient financial resources to meet its liabilities as they fall due or can secure them only at an excessive cost.

Funding risk is the risk that the Society is unable to obtain stable funding to achieve its business objectives or can secure them only at an excessive cost.

The Financial Risk Management Policy sets out the liquidity risk limits approved by the Board, and these are regularly reviewed by ALCO and Risk Committee. The policy sets out the permissible financial instruments in which the Society can invest, and the minimum liquidity requirements as determined by the Society's Internal Liquidity Adequacy Assessment Process (ILAAP). The policy aims to maintain liquid assets at all times that are adequate, both as to quantity and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due both in normal and stressed scenarios, to smooth out the effect of maturity mismatches between assets and liabilities, and to maintain the highest level of public confidence in the Society.

The risk is managed principally by the holding of cash, demand deposits and other easily realisable assets. The Society holds funds on deposit with the Bank of England and large UK clearing banks that are realisable at very short notice. These holdings are monitored each day.

The Society forecasts its cash flows under normal conditions, taking account of expected inflows and outflows of funds from mortgage advances and repayments, and retail and wholesale funding sources.

The Society also undertakes regular stress testing that model cash outflows under stressed conditions. The results of the forecasts and stress tests are monitored by ALCO each month. Details of how the Society manages liquidity risk are given in note 27 (d) of the accounts.

The Financial Risk Management Policy sets appropriate risk limits to maintain a prudent funding mix, maturity profile, and encumbrance levels. The Society's funding profile and position against limits are monitored by ALCO each month.

Interest rate risk

This is the risk of reductions in net interest margin arising from unfavourable movements in interest rates due to:

- Mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates (re-pricing risk); and
- The re-pricing of assets and liabilities according to different interest bases (basis risk).

The Society's policy is to manage its exposure to interest rate risk within approved limits set by the Board within the Financial Risk Management Policy.

Interest rate re-pricing risk and basis risk are mitigated through a combination of matching assets and liabilities with offsetting interest rate characteristics and using derivative financial instruments, including interest rate swaps.

ALCO monitors interest rate risk positions each month. Further details of how the Society manages interest rate risk, including risk management objectives and policies, the Society's use of derivatives for hedging purposes and interest rate sensitivity analysis, are given in note 27 (e) of the accounts.

Operational risk

This is the risk of loss arising from inadequate or failed internal processes, people, systems, including IT systems, and financial crime, including cyber crime.

These risks are managed as an integral part of the Society's operations. The Society's management has a responsibility to understand how operational risk impacts their area of the business and for implementing controls or mitigating activities.

The Society recognises the increased threat of cyber-attacks being faced across the financial sector in general and continues to ensure that it has an appropriate capability to detect and respond to cyber security issues effectively, safeguarding the organisation and its members. The Society strives to keep pace with market trends in the prevention and detection of potential attacks, to safeguard the business and protect its members' data and savings.

In respect of financial crime, the Society maintains policies, procedures, systems and staff training to prevent, deter and detect financial crime, and promotes a culture that supports its prevention and detection.

A Money Laundering Reporting Officer (MLRO) is in place to ensure the Society adheres to the policies and procedures and ensure the Society's staff understand and comply with the applicable regulations and their individual responsibilities.

Management information relating to operational risk, the occurrence of risk events and near misses, as well as actions taken in response to such events, is monitored by CORC each month.

Conduct risk

This is the risk of detrimental outcomes to customers arising throughout the lifecycle of the Society's products due to inadequate processes.

The Conduct Risk Policy is approved by the Board and documents the Society's commitment to ensuring its customers are treated fairly and that regulatory requirements and best practice guidance from the FCA are met. This includes building the needs of vulnerable customers into processes and the Society's culture.

Management information measuring conduct risk is reviewed monthly by CORC, which reports to the Board Risk Committee, ensuring visibility of any customer detriment and that adequate controls are implemented.

Directors' report continued

Climate change risk

This is the risk of loss arising from the impact of climate change on the Society's assets, and the risk to the environment directly from the Society's own emissions.

Climate change presents a combination of risks to the Society that require management and mitigation. The Society has identified potential exposure to both physical risks and transition risks in respect of climate change.

Physical risks relate to the potential impacts of the increased frequency of weather events, such as floods, storms and wildfires, and longer-term changes in the climate, such as rising sea levels. The physical risks that are particularly relevant to the Society have been identified as:

- Increased severity and frequency of flooding; and
- Rising sea levels impacting coastal communities.

Both these risks have the potential to cause reductions in property collateral values and increased insurance premiums, impacting borrower affordability, for borrowers in areas prone to flooding.

Transition risks reflect the potential impacts from the process of moving to a carbon neutral economy and include changes in government policy, technological advances, and consumer behaviour. The transition risks that are particularly relevant to the Society have been identified as:

- Changes required to property collateral, particularly relating to those that do not meet high energy efficiency standards that may require substantial investment to meeting future standards.
- Borrowers employed in non-climate friendly occupations or industries who may experience a reduction in income as the economy adjusts to a carbon neutral future.

The transition risks identified have the potential to cause reductions in property collateral values and reductions in borrower affordability.

The Society has prepared a climate change strategy to respond to the financial risks arising from climate change and this has been approved by the Board, with responsibility for climate change risk allocated to the Chief Executive. An initial assessment of property collateral with a potential high risk of flooding or low energy efficiency indicated minimal risk exposure at present. Further assessment of other risks and enhancements to data held are being undertaken to improve the Society's risk assessment.

The Society has also quantified its own scope one and two emissions during the year, relating to those arising from owned vehicles and electricity and gas usage. These will be used to track the Society's own carbon footprint and to monitor the impact of actions taken to reduce emissions.

The Society continues to monitor the regulatory landscape in relation to climate change to assess the impacts of any changes.

Pension obligation risk

This is the risk of a reduction in profit due to the Society having to make significant contributions to the Society's defined benefit pension scheme.

The scheme has been closed to future accrual since 2010. The Society and scheme trustee have taken steps during the year to de-risk the scheme by transferring assets from higher-risk growth investments to lower-risk bonds and liability matching investments.

Details of the pension scheme including the cost to the Society for the year and the updated scheme valuation at the year-end are set out in note 29 to the accounts.

Creditor payment policy

For all trade creditors it is the Society's policy to agree the terms of payment at the start of trading with that supplier and to pay in accordance with its contractual and other legal obligations.

The creditor days were 3 days at 30 November 2021 (2020: 7 days).

Donations and sponsorship

During the year the Society provided £146,394 of charitable donations and sponsorship (2020: £12,462), mainly to local organisations. There were no donations for political purposes.

Directors

The following members served as directors of the Society during the year:

Colin Franklin	Chairman
Colin Fyfe	Chief Executive
Geneane Bell	
John Mulvey	Chief Financial Officer
Barbara Taeed	
Dean Waddingham	Chief Customer Officer
Gary Wilkinson	
David Woodward	Senior Independent Director
Nemone Wynn-Evans	

All directors will retire, and being eligible, will offer themselves for re-election at the Annual General Meeting in 2022. Dean Waddingham has given notice of his intention to retire as a director with effect from 31 May 2022.

Going concern

The directors have prepared forecasts for a period of at least twelve months from the date of approval of the accounts, of the Society's profitability, capital, funding and liquidity positions that take account of the Society's current position and principal risks as set out in the Directors' report.

Forecasts have also been prepared to assess the impact on the Society's business and its profitability, capital, funding and liquidity positions of operating under plausible downside stressed conditions. The stressed conditions include a prolonged severe economic downturn involving a slowdown in the housing market, reducing mortgage market volumes and reducing house prices, and a rise in unemployment increasing arrears and possession levels. The detailed assumptions adopted in this scenario combine those used by the Bank of England, to test the capital adequacy of systemic firms within the UK banking system, with additional firm-specific and market-wide stresses impacting the Society's income and expenditure.

Based on these forecasts the directors are satisfied that the Society has adequate resources to continue in business for a period of at least twelve months from the date of approval of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

Independent auditor

The independent auditor, KPMG LLP, has expressed a willingness to continue in office and a motion for their reappointment will be proposed at the Annual General Meeting.

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

On behalf of the Board

Colin Franklin
Chairman
15 February 2022

Responsibilities of the Directors

Statement of directors' responsibilities in respect of the Annual Report, the Strategic report, the Directors' report and the annual accounts.

The directors are responsible for preparing the Annual Report, the Strategic report, the Directors' report and the annual accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK accounting standards and applicable law, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under relevant law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of its profit or loss for that period. In preparing the annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its annual accounts comply with the Act. They are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

On behalf of the Board

Colin Franklin
Chairman

15 February 2022

Independent Auditor's report

to the members of Hinckley and Rugby Building Society

1. Our opinion is unmodified

We have audited the financial statements of Hinckley and Rugby Building Society ("the Society") for the year ended 30 November 2021 which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in members' interests, cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Society's affairs as at 30 November 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Compliance Committee.

We were first appointed as auditor by the members on 22 March 2017. The period of total uninterrupted engagement is for the five financial years ended 30 November 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Society in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The Risk	Our Response
Provision for impairment losses on loans and advances **£553,000 (2020: £657,000)** Refer to page 42 (accounting policy) and page 53 (financial disclosures). Risk vs 2020: ▼ **Subjective estimate** The provision for impairment losses on loans and advances relating to the Society's loan portfolio requires the directors to make significant judgements and estimates in order to determine incurred losses on loans and advances to customers. In doing so, the directors have considered both the Society's specific historical data as well as their experience and knowledge of the Society's current mortgage book. Provision for impairment losses on loans and advances are assessed on an individual and collective basis. The directors judge individual impairments by reference to loans that are one or more months in arrears or in possession or where there is other objective evidence that all cash flows will not be received. The collective and individual impairment provision is derived from a model that uses a combination of the Society's historical experience and judgement due to the Society's limited loss experience. There is a risk that the overall provision is not reflective of the incurred losses at the end of the period. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Society's estimation of impairment of loans and advances to customers were the probability that a customer will default on its loan payments (probability of default) and the discount applied to property valuations in the event of possession (forced sale discount). The overall level of the provision for impairment losses on loans and advances to customers recognised is also sensitive to the application of overlays made by the directors in respect of COVID-19. This also includes an adjustment to the indexation of the collateral valuations. The effect of these matters is that, as part of our risk assessment, we determined that the provision for impairment losses on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The annual accounts (note 2) disclose the sensitivity estimated by the Society.	Our procedures included: **Historical comparison:** We challenged the Society's probability of default assumption against the Society's historical arrears experience; **Benchmarking assumptions:** We compared the key assumptions used in the impairment model, being probability of default and forced sale discount, to other external data where available; **Sensitivity analysis:** We assessed the impairment of loans and advances to customers for its sensitivity to changes in the key assumptions by performing stress testing to identify areas of potential focus; **Tests of detail:** We calculated our own range for the estimate, by assessing the reasonable alternative outcomes on key assumptions. We compared the Society's estimate to our range, and, having determined that it fell within our range, we critically assessed the rationale of the Society for choosing that point in the range; **Tests of detail:** We challenged management's judgements regarding the application of indexation to collateral values and recalculated the indexed collateral values using external house price indices; **Tests of detail:** We identified a selection of loans which based on risk characteristics of current or historical arrears, high LTV accounts, interest only accounts and certain accounts that previously took a payment holiday as a result of COVID-19, to identify individual loans which may have unidentified impairments. For the loans selected, we assessed historical payment status and also inspected any correspondence between the Society and the borrower for evidence of customer distress in order to challenge the completeness and accuracy of the specific impairment provision; **COVID-19 overlay:** We assessed the COVID-19 adjustment by critically assessing the assumptions used in determining the value of the adjustment recognised; and **Assessing transparency:** We assessed the adequacy of the Society's disclosures in relation to the degree of estimation uncertainty involved in arriving at the provision for impairment losses on loans and advances to customers. **Our results** We found the resulting estimate of the provision for impairment losses on loans and advances to customers to be acceptable (2020: acceptable).

Independent Auditor's report continued

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

The Risk	Our Response
Valuation of the defined benefit pension scheme obligation **£30,209,000 (2020: £29,931,000)** Refer to page 43 (accounting policy) and page 69 (financial disclosures). Risk vs 2020: ◀ ▶ **Subjective estimate** The Society operates a defined benefit pension scheme which has been closed to new members for several years. At year-end, the Society holds a net defined benefit pension scheme surplus on the balance sheet, which includes gross pension obligations. Small changes in the assumptions and estimates used to value the Society's pension obligation (before deducting scheme assets) would have a significant effect on the Society's net defined benefit surplus. The most significant assumptions used in the valuation are: – Discount rate; – Inflationary increases for RPI; and – Mortality rates. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit pension scheme obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 2) disclose the sensitivity estimated by the Society.	Our procedures included: **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the Society's actuary in assessing the directors' reliance upon their expert valuation services; **Benchmarking assumptions:** We assessed, using our own actuarial specialists, the key assumptions applied, such as the discount rate, inflation rate and mortality rates against externally derived data and internal experience; and **Assessing transparency:** We assessed the adequacy of the Society's disclosures in respect of the sensitivity of the obligation to the actuarial assumptions. **Our results** We found the valuation of the defined benefit pension scheme obligation and the related disclosures to be acceptable (2020: acceptable).

We continue to perform procedures over interest receivable on loans and advances to customers – effective interest rate adjustment. However, as a result of the increase in experience available to management and the lower level of estimation uncertainty arising, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We also continue to perform procedures over going concern. However, as a result of the more favourable COVID-19 macroeconomic environment as at 30 November 2021, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the annual accounts as a whole was set at £230,000 (2020: £215,000), determined with reference to a benchmark of net assets, of which is represents 0.5% (2020: 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individual immaterial misstatements in individual account balances add up to a material amount across the annual accounts as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the annual accounts as a whole. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Compliance Committee any corrected or uncorrected identified misstatements exceeding £11,000 (2020: £10,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. Going concern

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

We used our knowledge of the Society, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Society's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Society's available financial resources over this period was an increase in the level of impairment of loans and advances to customers due to the current uncertainty in the economic environment. This could impact on the Society's available financial resources, leading to insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months.

We also considered less predictable but realistic second order impacts, such as the availability of funding and liquidity in the event of a market wide stress scenario, which includes the impact of continuing unfolding of the global COVID-19 pandemic and the impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether those risks could plausibly affect the liquidity and regulatory capital in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of availability financial resources indicated by the Society's financial forecasts.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Society will continue in operation.

Independent Auditor's report continued

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Audit and Compliance Committee, internal audit and inspection of policy documentation as to the Society's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Society's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Compliance Committee and Risk Committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because of the limited perceived pressure and opportunity for fraud with respect to the Society's interest income (including effective interest rate adjustments) and other income given the lack of estimation uncertainty in determining income and the relative size of the effective interest rate adjustments.

We also identified a fraud risk related to the provision for impairment losses on loans and advances due to the significant judgement involved in the estimate. Further detail is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included journals posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Society is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

Secondly, the Society is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation or the loss of the Society's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital, liquidity requirements, customer conduct rules, money laundering and financial crime and certain aspects of building society legislation recognising the financial and regulated nature of the Society's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

The directors are responsible for the other information presented in the annual report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the annual accounts; and
- in our opinion those reports have been prepared in accordance with the Building Societies Act 1986 and regulations thereunder.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the annual accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 29, the directors are responsible for: the preparation of the annual accounts including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

Karl Pountney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

15 February 2022

Income Statement

For the year ended 30 November 2021

	Notes	2021 £'000	2020 £'000
Interest receivable and similar income	3	**14,935**	15,785
Interest payable and similar charges	4	**(4,122)**	(6,480)
Net interest receivable		**10,813**	9,305
Fees and commissions receivable		**159**	144
Fees and commissions payable		**(69)**	(74)
Net gains/(losses) from derivative financial instruments	5	**198**	(53)
Loss on sale of tangible fixed assets		**–**	(2)
Other operating income	6	**56**	45
Other finance income	29	**50**	22
Total income		**11,207**	9,387
Administrative expenses	7	**(9,291)**	(8,096)
Depreciation	17	**(305)**	(316)
Amortisation	19	**(309)**	(343)
Operating profit before impairment losses and provisions		**1,302**	632
Gain on revaluation of investment properties		**37**	144
Impairment gains/(losses) on loans and advances to customers	15	**104**	(214)
Operating profit and profit before tax		**1,443**	562
Tax on profit on ordinary activities	10	**(359)**	(10)
Profit for the financial year		**1,084**	552

The notes on pages 41 to 71 form part of these accounts.

The above results are all derived from continuing operations.

Statement of Comprehensive Income

For the year ended 30 November 2021

	Notes	2021 £'000	2020 £'000
Profit for the financial year		**1,084**	552
Other comprehensive income			
Items that will not be reclassified to the Income Statement			
Actuarial gains recognised in the pension scheme	29	**1,323**	2,055
Movements in deferred tax relating to the pension scheme	10(b)	**(479)**	(391)
Other comprehensive income		**844**	1,664
Total comprehensive income		**1,928**	2,216

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Statement of Financial Position

As at 30 November 2021

	Notes	2021 £'000	2020 £'000
Assets			
Liquid assets			
– Cash in hand and balances with the Bank of England	11	**158,359**	131,146
– Loans and advances to credit institutions	12	**13,910**	14,095
Derivative financial instruments	13	**404**	131
Loans and advances to customers	14		
– Loans fully secured on residential property		**618,963**	657,711
– Loans fully secured on land		**–**	214
Tangible fixed assets	17	**5,307**	5,414
Intangible fixed assets	19	**594**	785
Investment properties	18	**412**	375
Other assets	20	**1,033**	943
Post employment benefits	29	**4,572**	3,201
Total assets		**803,554**	814,015
Liabilities			
Shares	22	**674,809**	668,683
Amounts owed to credit institutions	23	**60,025**	70,012
Amounts owed to other customers	24	**18,457**	25,552
Derivative financial instruments	13	**525**	3,015
Other liabilities	25	**1,185**	966
Deferred tax liability	21	**1,242**	404
Total liabilities		**756,243**	768,632
Reserves			
General reserve		**47,311**	45,383
Total reserves		**47,311**	45,383
Total reserves and liabilities		**803,554**	814,015

The notes on pages 41 to 71 form part of these accounts.

Approved by the Board of Directors on 15 February 2022.

Colin Franklin
Chairman

Colin Fyfe
Chief Executive

John Mulvey
Chief Financial Officer

Statement of Changes in Members' Interests

For the year ended 30 November 2021

	General Reserve £'000
Balance at 1 December 2020	45,383
Profit for the financial year	1,084
Other comprehensive income for the period (net of tax)	
– Re-measurement of defined benefit obligations	844
Total comprehensive income for the financial year	1,928
Balance at 30 November 2021	**47,311**

	General Reserve £'000
Balance at 1 December 2019	43,167
Profit for the financial year	552
Other comprehensive income for the period (net of tax)	
– Re-measurement of defined benefit obligations	1,664
Total comprehensive income for the financial year	2,216
Balance at 30 November 2020	**45,383**

Cash Flow Statement

For the year ended 30 November 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit before tax	**1,443**	562
Depreciation and amortisation	**614**	659
(Decrease)/Increase in fair value of derivative financial instruments and hedged items	**(214)**	91
Pension credits	**(48)**	(22)
(Decrease)/Increase in allowance for impairment losses on loans and advances	**(104)**	214
Net loss on sale of tangible fixed assets	**–**	2
Fair value gains on investment properties	**(37)**	(144)
Net cash generated by trading activities	**1,654**	1,362
Changes in operating assets and liabilities		
Increase in other assets	**(149)**	(154)
Decrease/(Increase) in collateral pledged against derivative liabilities	**2,944**	(1,578)
Net decrease in loans and advances to customers	**36,341**	39,550
Net increase in shares	**10,114**	11,389
Net decrease in amounts owed to credit institutions	**(10,000)**	(27,000)
Net decrease in amounts owed to other customers	**(7,057)**	(8,134)
Net decrease in other liabilities	**(3,562)**	(1,041)
Net cash generated by operating activities	**30,285**	14,394
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(316)**	(372)
Proceeds from disposal of tangible fixed assets	**–**	16
Net cash used in investing activities	**(316)**	(356)
Net increase in cash and cash equivalents	**29,969**	14,038
Cash and cash equivalents at 1 December	**141,988**	127,950
Cash and cash equivalents at 30 November	**171,957**	141,988

For the purposes of the cash flow statements, cash and cash equivalents comprise the following balances with less than 90 days to maturity:

	2021 £'000	2020 £'000
Cash in hand and balances with the Bank of England	**158,359**	131,146
Loans and advances to credit institutions repayable on demand	**13,598**	10,842
	171,957	141,988

Notes to the Accounts

For the year ended 30 November 2021

1. Principal accounting policies

Basis of preparation

The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement" (via the option in FRS 102 para 11.2(b)). The amendments to FRS 102 issued in July 2015 have been applied.

The Society has taken advantage of the exemption included in paragraph 9.9A of FRS 102, to exclude a subsidiary from consolidated financial statements when its inclusion is not material. The subsidiary shown in note 16 did not trade during the current and prior years and its net assets were £2 at the current and prior year-end. Accordingly, consolidated financial statements have not been prepared.

Basis of accounting

The accounts have been prepared on a going concern basis, under the historical cost convention, as modified by the following:

- Land and buildings which the Society lets to third parties on commercial terms are classified as investment properties and are stated at current value.
- Derivative financial instruments are stated at fair value. Underlying hedged items are held at amortised cost, adjusted for the fair value attributable to the hedged risk.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Functional and presentational currency

The Society's functional and presentational currency is pounds sterling. The Society trades solely in the United Kingdom and has no material foreign currency transactions. There is one class of business as reported in the Income Statement.

Going concern and viability statement

The directors have prepared detailed forecasts of the Society's profitability, capital, funding and liquidity positions that take account of the Society's current position and principal risks as set out in the Directors' report above. Forecasts have also been prepared to assess the impact on the Society's business and its profitability, capital, funding and liquidity positions of operating under stressed but plausible conditions. The stressed conditions include a prolonged severe economic downturn, involving a slowdown in the housing market, reducing mortgage market volumes and reducing house prices, and a rise in unemployment increasing arrears and possession levels. The detailed assumptions adopted in this scenario combine those used by the Bank of England, to test the capital adequacy of systemic firms within the UK banking system, with additional firm-specific and market-wide stresses impacting the Society's income and expenditure.

Based on these forecasts the directors are satisfied that the Society has adequate resources to continue in business for a period of at least twelve months from the date of approval of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

Interest income and expense

Interest income and expense are recognised in the Income Statement using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Transaction costs and fees, and charges paid or received, that are an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the effective interest rate and are recorded within interest income and expense. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Fees and commissions

Fees and commissions receivable and payable, other than those recognised within mortgage interest, are recognised when the relevant service is provided.

Other operating income

Other operating income includes rental income from investment properties and other sundry income. Rental income from investment properties is recognised in the Income Statement on a straight-line basis over the term of the leases.

Financial instruments

The Society has chosen to adopt the recognition and measurement provisions of IAS 39 – Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and the disclosure requirements of section 11 and 12 of FRS 102 in respect of financial instruments.

a) Loans and advances

Loans and advances are predominantly mortgage loans to customers and advances to credit institutions held for liquidity and for derivative margin management purposes. They are recorded at amortised cost using the effective interest method, less any impairment losses, other than where an adjustment is made as part of a fair value hedging arrangement.

Notes to the accounts continued

For the year ended 30 November 2021

b) Financial instruments at Fair Value Through Profit or Loss

The Society is exposed to decreases in the fair value of fixed rate mortgages as interest rates increase and to decreases in the fair value of fixed rate savings accounts as interest rates decrease. Derivatives in the form of interest rate swaps are used to mitigate this exposure. The Society uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes.

Interest rate swaps are recognised and subsequently measured in the Statement of Financial Position at fair value, with gains and losses recognised in the Income Statement, whilst the underlying mortgage loans and customer share accounts are held at amortised cost using the Effective Interest Method. As a result, hedge accounting is used to mitigate the accounting mismatches and the resulting Income Statement volatility.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the Income Statement, together with changes in the fair value of the hedged item that are attributable to the hedged risk (to the extent that the Society is applying hedge accounting to these instruments – see further comments below) within Net gains/(losses) from derivative financial instruments.

Hedge accounting

On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is/are expected to be highly effective in offsetting the changes in the fair value of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual effectiveness results of each hedge are within a range of 80–125%. Fair value hedges are used to hedge exposures to the variability in fair value of a recognised asset or liability or an unrecognised firm commitment. All changes in the fair value of the derivative are recognised immediately in the Income Statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in the Income Statement (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised to the Income Statement using the effective interest method over the remaining life of the hedged item.

In September 2019, the International Accounting Standards Board (IASB) issued amendments to IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. The amendments were effective for periods beginning on or after 1 January 2020. In August 2020, the IASB issued 'Interest Rate Benchmark Reform – Phase 2', which further amended the above standards to provide relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments were effective for periods beginning on or after 1 January 2021. The Society chose to adopt the amendments early in the preparation of the accounts for the year-ended 30 November 2020.

A summary of the effects of hedging and the associated fair value adjustments can be found in notes 5 and 13.

c) Financial liabilities

The Society's financial liabilities are predominantly customer share accounts and amounts owed to credit institutions and to other customers. They are recorded at amortised cost using the Effective Interest Method.

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Interest flows on the Society's derivative contracts are settled on this basis.

e) Derecognition

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

Impairment of loans and advances to customers

Individual assessments are made of all mortgage loans that are in arrears or in possession or there is other objective evidence that all cash flows will not be received and an exposure to potential loss exists after realisation of security at a forced sale discount. Based upon these assessments an individual impairment reduction of these assets is made.

In addition, the Society maintains a level of provision against losses that may have been incurred in the loan book but not reported and where problems in realising the Society's security may be anticipated due to factors such as problems with title, potential fraud within the loan application or buildings having been constructed on contaminated land.

Impairment provisions are made to reduce the value of impaired loans and advances to the amount that is considered to be ultimately received based upon objective evidence. Any increases or decreases in projected impairment losses are recognised through the Income Statement.

If a loan is ultimately uncollectable, then any loss incurred by the Society on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Income Statement.

Forbearance strategy

A range of forbearance options are available to support customers who are in financial difficulty, if it can be demonstrated that this difficulty can be successfully overcome. The Society considers that if one or more of the options identified below can be agreed, this would always be preferable to taking possession of the customer's home. The main options offered are:

- Reduced monthly payment including interest only concession;
- Payment holiday;
- Extension of mortgage term; and/or
- Transfer to a new product which could help to reduce monthly payments.

Customers requesting a forbearance option will need to provide information to support the request which the Society will use to assess whether it is likely that the preferred arrangement will resolve the customer's financial difficulties.

Accounts on which forbearance has been provided are monitored and borrowers are expected to resume normal payments, including any increase to repay the mortgage at the end of the agreed term, once they are able. Loans that receive forbearance may only be classified as up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment.

In the current and prior years, the Society worked with a number of borrowers who needed to defer mortgage payments, under the Financial Conduct Authority (FCA) recommended framework, due to the Covid pandemic and associated income challenges. In line with FCA guidance, borrowers requesting payment deferrals were granted a payment holiday of up to six months. No borrowers who took a payment holiday during the current year remained on one at the year-end.

Impairment losses on debt securities

At each Statement of Financial Position date the Society assesses whether or not there is objective evidence that individual debt instruments are impaired. Debt instruments held can include supranational floating rate notes, UK gilts or treasury bills or exposures to UK banks or building societies and therefore the likelihood of loss is remote. In reaching this conclusion the Society considers the financial status of the counterparty and the levels of activity in the market.

Employee benefits

The Society provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and a defined contribution pension scheme. A defined benefit pension scheme is also in place but was closed to further accrual in 2010.

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

(ii) Defined contribution pension scheme – The Society operates a defined contribution scheme for its employees. A defined contribution scheme is one into which the Society and the employee pay fixed contributions into a separate entity. Payments into the defined contribution scheme are charged to the Income Statement as they become payable in accordance with the rules of the scheme. Once the contributions have been paid the Society has no further payment obligations. Amounts owed but not paid are shown in accruals in the Statement of Financial Position. The assets of the scheme are held separately from the Society in independently administered funds.

(iii) Defined benefit pension scheme – The Society operates a defined benefit scheme for certain employees. A defined benefit scheme is one that defines the benefit the employee will receive on retirement, depending on such factors as age and length of service. The Society's contributions to the scheme are liable to increase or decrease in order to ensure liabilities to pensioners can continue to be met as they fall due. On 1st January 2010 the defined benefit scheme was closed to further accrual.

Society contributions payable to the defined benefit scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the Income Statement over the periods benefiting from the employees' services. The charge to the Income Statement over the financial year in relation to the defined benefit scheme is shown in note 29.

The asset/liability recognised in the Statement of Financial Position in respect of the defined benefit scheme is the fair value of the scheme assets less the present value of the defined benefit obligation at the reporting date. The defined benefit scheme was in surplus at 30th November 2021 and this has been recognised as an asset in the Statement of Financial Position. The judgements in relation to this are disclosed in note 2.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality sterling bonds of comparable term to the related pension liability (the 'discount rate').

The fair value of scheme assets includes the use of appropriate valuation techniques in accordance with FRS 102. These include publicly quoted indices for assets traded on the open market and investment managers' own, unaudited valuation models for assets that are not publicly traded.

Net interest income, comprising expected interest income on scheme assets less interest costs on scheme liabilities, is calculated by applying the discount rate to the net balance of the fair value of scheme assets less the defined benefit obligation. This result is recognised in the Income Statement as Other finance income.

The cost of the defined benefit scheme, recognised in the Income Statement as employee costs, except where included in the cost of an asset, comprises any cost of plan benefit changes, curtailments, settlements, and administrative costs.

Notes to the accounts continued

For the year ended 30 November 2021

Actuarial gains and losses arising from scheme assets and from experience adjustments and changes in actuarial assumptions on the obligation are charged or credited each year to Other comprehensive income.

Cash in hand and balances with the Bank of England

Cash in hand and balances with the Bank of England includes cash in hand and balances with less than three months' maturity, including cash and other eligible bills and loans and advances to credit institutions.

Loans and advances to credit institutions

Derivatives are only executed with organisations that have an approved credit limit. The majority of the Society's derivative agreements include arrangements requiring that any movement in the value of the derivative be offset by the placing of cash collateral to reduce the resulting credit exposure on a weekly basis. Cash deposited with the counterparty is held within Loans and advances to credit institutions at cost.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity. In this case tax is also recognised in Other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

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

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

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date, including property revaluations, but is not provided on differences that are expected to be permanent. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end, depending on the date at which the timing differences are expected to reverse.

Investment properties

Freehold investment properties are included in the Statement of Financial Position at fair value, which is taken as being open market value. Movements in valuation are posted through the Income Statement. Open market value is reassessed annually by the directors, with periodic reassessment by appropriately qualified third party valuers.

Details of the value of the properties are provided in note 18 to the financial statements.

Intangible fixed assets and amortisation

Intangible fixed assets are stated at historical cost less accumulated amortisation. Amounts capitalised represent the costs of acquiring, developing and installing computer software, and may include amounts payable to third party suppliers and also values associated with time spent by the Society's own staff. Amortisation is provided at 20% per annum on a straight-line basis, as an approximation of its useful economic life.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation, with the exception of certain freehold properties (or portions thereof) which are commercially let and are therefore classified as investment properties, which are held at open market value.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates designed to write down the cost or valuation of fixed assets to their residual values over their expected useful lives. The following are approximations of the useful lives:

- Freehold buildings and leasehold land and buildings with more than 50 years unexpired: 2% to 10% per annum on a straight-line basis.
- Leasehold land and buildings with less than 50 years unexpired: Equal annual instalments to expiry of the lease.
- Fixtures and fittings: 5% to 15% per annum on a straight-line basis.
- Computer equipment: 20% to 33% per annum on a straight-line basis.
- Motor vehicles: 25% per annum on a reducing balance basis.
- Office equipment: 25% per annum on a straight-line basis.

Freehold land is not depreciated.

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

Repairs, maintenance and minor inspection costs are expensed as incurred.

Impairment

The carrying amount of the Society's assets is reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indicators exist, the asset's recoverable amount is reviewed. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of market value or the value in use of the respective asset. Impairment losses are recognised in the Income Statement.

A reversal of an impairment loss is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position if the Society has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation.

Contingent liabilities

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Society's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Operating leases

At inception the Society assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. All the Society's leases are operating leases.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

2. Critical accounting estimates and judgements

The directors make estimates and judgements that affect the reported amounts of assets and liabilities reported in the accounts. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below.

a) Post employment benefits and recognition of pension surplus

The Society operates a defined benefit pension scheme and has an obligation to pay pension benefits to certain employees. Judgement is exercised in estimating the value of the assets and liabilities of the scheme, and hence its net surplus or deficit. The directors have estimated the assumptions, set out in note 29, after taking advice from qualified independent actuaries. Sensitivities relating to the key estimates are set out below:

- The discount rate used to value the liabilities at the year-end was 1.62% (2020: 1.56%). A decrease in the discount rate of 0.25% would increase scheme liabilities by approximately £1.4m (2020: £1.4m).
- An increase in the assumed rate of inflation of 0.25% would increase the scheme liabilities by approximately £0.6m (2020: £0.6m).
- With respect to mortality, an increase in the life expectancy of scheme members of one year would increase scheme liabilities by approximately £1.8m (2020: £1.7m).

Mortality assumptions are based on publicly available mortality tables for the UK. Covid-19 has caused a short-term increase in deaths in the UK but the excess deaths to date have not generally had a material impact on UK pension scheme liabilities. The future impact of Covid on long term mortality improvements is currently uncertain, with potential adverse implications of delayed medical interventions and "long Covid", along with potential positive implications if the surviving population is less frail or the pandemic causes improved healthcare initiatives and lifestyle changes. Overall, the Society believes there is insufficient evidence to require an explicit adjustment to the mortality assumptions for Covid at this time.

IFRIC 14 is the interpretation that details when a sponsoring employer of a defined benefit pension scheme can recognise any pension surplus that exists. IFRIC 14 permits the recognition of an asset if a scheme is in surplus if economic benefits are available to an entity in the form of a refund or reduction in future contributions. Economic benefits arising from a refund are only available if the entity has an unconditional right to a refund under specific circumstances.

The directors' view is that, under the scheme rules, the Society has an unconditional right to any surplus assuming the gradual settlement of liabilities over time until all members have left the scheme. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Therefore, under IFRIC 14 the Society is neither required to reflect any additional liabilities in relation to deficit funding commitments, nor restrict any scheme surplus that arises.

Notes to the accounts continued

For the year ended 30 November 2021

b) Impairment of loans and advances to customers

The Society's accounting policy for impairment of loans and advances to customers is set out in note 1 and consists of:

- Individual assessments of impairment of all mortgage loans that are in arrears or where other objective evidence exists that all cash flows will not be received; and
- Collective assessments of impairment of portfolios of mortgage loans that are not subject to individual impairment provisions, where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

The Society regularly performs collective assessments of impairment. Objective evidence of impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio.

Estimates based on historical loss experience for assets with similar credit risk characteristics to those in the portfolio and external data are used to assess impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Covid pandemic experienced in the current and prior years, which is expected to continue over the next financial year, has severely affected the UK economy, adversely impacting borrower incomes. The Society worked with a number of borrowers who needed to defer mortgage payments, under the Financial Conduct Authority (FCA) recommended framework. The UK government's schemes introduced in 2020 to support jobs, borrowers and the housing market, included the Job Retention Scheme (furlough), loan payment deferrals, the moratorium on possessions and the concession on residential stamp duty. These schemes were withdrawn during the year, with the furlough and stamp duty schemes ending on 30 September 2021.

As a result of the impact of Covid, the directors included the following overlays to the individual and collective assessments of impairment to ensure that adequate provisions are held against loans in arrears and against losses that may have been incurred but not identified at the year-end:

- Probabilities of default for mortgage accounts in arrears, estimated from historic actual default experience, were uplifted to reflect the deterioration in the economic environment, resulting in an increase in individual impairment provisions;
- The probability of default for mortgage accounts not currently in arrears, estimated from historic actual default experience, was uplifted to reflect the increased probability that losses on loans were incurred but not identified at the year-end resulting in an increased collective impairment provision;
- Mortgage accounts for borrowers that deferred mortgage payments during the current or prior year were collectively assessed for impairment. In accordance with FCA guidance, such deferred mortgage payments were not treated as arrears. The accounts were allocated to one of three impairment categories. For borrowers who returned to their contractual repayments, the categories range from those who repaid all deferred payments and associated interest to those who capitalised the deferred payments and required a term extension to their mortgage contract. The three payment holiday impairment categories were allocated probabilities of default based on those used for accounts in arrears, including the uplift described above, resulting in an increased collective provision;
- Probabilities of default for mortgage accounts with a high LTV (over 80%), excluding those that were not in arrears at the year-end and had not deferred mortgage payments during the year, were uplifted to reflect the estimated increased default rate associated with lower levels of borrower equity in a property. The estimates were used while the Society collates additional default experience for high LTV cases, which is currently limited. The higher default rates increased both individual and collective impairment provisions; and
- The impact of house price increases observed during the current financial year were removed from the impairment provision calculations due to the housing market uncertainty caused by the withdrawal of the furlough scheme and stamp duty concessions towards the end of the year.

While the total individual and collective impairment provision has reduced during the year, the above overlays account for the increased impairment provision held at the year-end over pre-pandemic levels. Details of provisions for impairment losses are shown in note 15 and arrears and forbearance details associated with loans and advances to customers are set out in note 27 (c).

The directors have exercised judgements in arriving at the key estimates used in the impairment provision assessments. Sensitivities relating to the key estimates are set out below:

- A reduction in the assumed level of house prices of 5% would result in increased impairment provisions of £0.3m (2020: £0.3m).
- An increase in the assumed default rates of 20% would result in increased impairment provisions of £0.1m (2020: £0.1m).

Due to the changes made to the provision assessments in the year, including the overlays described above, prior year comparisons of sensitivities are not provided.

c) Effective interest rate

FRS 102 requires that all cash flows directly associated with financial instruments must be recognised in the Income Statement through the interest margin using the effective interest method. The implementation of this method requires estimates to be made of the average lives of mortgages.

A reduction in the estimated average life of a mortgage across the full mortgage portfolio by one day would reduce interest income recognised by approximately £6,000 (2020: £2,000).

3. Interest receivable and similar income

	2021 £'000	2020 £'000
On loans fully secured on residential property and other loans	**16,060**	16,566
On liquid assets	**154**	386
Net interest expense on derivative financial instruments	**(1,279)**	(1,167)
	14,935	15,785

All interest receivable and similar income arises in the UK.

Interest on loans fully secured on residential property and other loans includes interest accrued on impaired residential mortgage assets of £55,000 (2020: £67,000).

4. Interest payable and similar charges

	2021 £'000	2020 £'000
On shares held by individuals and other shares	**4,064**	6,203
On deposits and other borrowings	**84**	340
Net interest income on derivative financial instruments	**(26)**	(63)
	4,122	6,480

5. Net gains/(losses) from derivative financial instruments

Financial assets at fair value through profit or loss	2021 £'000	2020 £'000
Instruments used to hedge loans and advances		
– Gains/(losses) on hedging instruments	**2,768**	(1,324)
– (Losses)/gains on hedged items attributable to the hedged risk	**(2,619)**	1,294
– Amortisation of hedged items following swap termination	**(163)**	(54)
Net hedge ineffectiveness	**(14)**	(84)
Instruments used to hedge savings		
– (Losses)/gains on hedging instruments	**(52)**	29
– Gains/(losses) on hedged items attributable to the hedged risk	**61**	(32)
– Amortisation of hedged items following swap termination	**184**	58
Net hedge ineffectiveness	**193**	55
Instruments not in a hedge relationship		
– Gains/(losses) on unmatched derivatives	**19**	(24)
Net gains/(losses)	**19**	(24)
Net gains/(losses) from derivative financial instruments	**198**	(53)

6. Other operating income

	2021 £'000	2020 £'000
Rent receivable on investment properties	**56**	45

Notes to the accounts continued

For the year ended 30 November 2021

7. Administrative expenses

	2021 £'000	2020 £'000
Employee costs		
– Wages and salaries	**4,693**	4,257
– Social security costs	**438**	393
– Other pension costs	**374**	342
	5,505	4,992
Other administrative expenses	**3,786**	3,104
	9,291	8,096

Other administrative expenses include:		
Auditor's remuneration (excluding VAT)		
– Statutory audit of the Annual Report and Accounts	**245**	170
– Other assurance services	**40**	–
	285	170

Operating lease charges		
– Land and buildings	**74**	74
– Fixtures and fittings	**10**	10
	84	84

8. Employees

The average number of persons employed (including executive directors) during the financial year was:	2021	2020
Full time		
Principal office	**89**	78
Branch offices	**22**	20
	111	98

Part time		
Principal office	**22**	21
Branch offices	**8**	12
	30	33

9. Directors' and key management emoluments

Emoluments of the Society's directors and key management are detailed below:

(a) To independent non-executive directors for services as directors

Aggregate emoluments	**Fees 2021 £'000**	Fees 2020 £'000
Colin Franklin	**52**	51
David Woodward	**37**	37
Geneane Bell	**33**	32
Barbara Taeed	**28**	28
Gary Wilkinson	**37**	37
Nemone Wynn-Evans	**28**	28
	215	213

No pension contributions were made in respect of these directors.

(b) To executive directors for services in connection with the management of the Society

2021	**Salary £'000**	**Bonus £'000**	**Contribution to defined contribution pension scheme £'000**	**Total £'000**
Colin Fyfe	**253**	**10**	**–**	**263**
John Mulvey	**155**	**8**	**16**	**179**
Dean Waddingham	**169**	**5**	**–**	**174**
	577	**23**	**16**	**616**

2020	Salary £'000	Bonus £'000	Contribution to defined contribution pension scheme £'000	Total £'000
Colin Fyfe	251	3	–	254
John Mulvey (appointed 1 April 2020)	102	3	10	115
Andrew Payton (resigned 31 March 2020)	107	–	11	118
Dean Waddingham	167	2	–	169
	627	8	21	656

	2021 £'000	2020 £'000
Total directors' emoluments including benefits and pension contributions	**831**	869

Salary costs and pension contributions shown are before any adjustments for the payment of employee pension contributions by salary sacrifice. Andrew Payton resigned on 31 March 2020, and a payment in lieu of notice of £51,767 and related employer pension contribution of £5,307 are included in his salary and pension contribution costs for the prior year shown above.

(c) Directors' loans and transactions

During the financial year there were no (2020: no) new mortgage advances to directors and connected persons and one (2020: no) further advance on an existing mortgage to directors and connected persons. At the 30 November 2021, there was one (2020: one) outstanding mortgage loan to directors and connected persons that had been granted in the ordinary course of business, amounting to an aggregate of £285,272 (2020: £207,287).

All directors of the Society are required to maintain a savings balance of at least £1,000 each in the Society. At 30 November 2021 the aggregate balances held by directors and connected persons in Hinckley & Rugby savings accounts was £405,659 (2020: £324,636).

In accordance with Section 68 of the Building Societies Act 1986, the Society maintains a register in respect of loans, transactions and arrangements, if any, between the Society and its directors, and persons connected with them.

Requisite particulars will be available for inspection by members, at the Society's Principal Office in Hinckley, for 15 days before the day of the Annual General Meeting, and also at that meeting.

Directors' loans and transactions represent all the related party transactions that are required to be disclosed in these accounts.

(d) Key management compensation

The directors of the Society are considered to be the only key management personnel, as defined by FRS 102. The total compensation for key management personnel, including benefits and pension contributions, is shown above.

Notes to the accounts continued

For the year ended 30 November 2021

10. Tax on profit on ordinary activities

a) Tax expense included in the Income Statement

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax on profits for the financial year	**–**	–
Deferred tax:		
Origination and reversal of timing differences	**263**	111
Effect of changes in tax rates	**96**	(21)
Adjustment in respect of previous periods	**–**	(80)
Total deferred tax	**359**	10
Total tax charge included in the Income Statement	**359**	10

b) Tax expense included in Other comprehensive income

	2021 £'000	2020 £'000
Current tax	**–**	–
Deferred tax	**479**	391
Total tax charge included in Other comprehensive income	**479**	391

c) Reconciliation of tax charge

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2021 £'000	2020 £'000
Profit for the period – continuing operations	**1,443**	562
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	**274**	107
Effects of:		
Expenses not deductible/(Income not taxable)	**(11)**	4
Change in tax rate	**96**	(21)
Adjustment in respect of previous periods	**–**	(80)
Total tax charge for the financial year	**359**	10

d) Tax rate changes

On 11 March 2020, the UK government announced that the UK Corporation tax rate from 1 April 2020 would remain at 19%, and this was substantively enacted on 17 March 2020. On 3 March 2021, the UK government announced that the UK Corporation tax rate from 1 April 2023 would increase to 25%, and this was substantively enacted on 24 May 2021. The deferred tax liability at 30 November 2021 has been calculated based on the rate substantively enacted at the Statement of Financial Position date of 25%.

11. Cash in hand and balances with the Bank of England

	2021 £'000	2020 £'000
Cash in hand	**211**	147
Balances at Bank of England	**158,148**	130,999
	158,359	131,146

12. Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:

	2021 £'000	2020 £'000
Repayable on demand	**13,598**	10,842
Collateral pledged against derivative transactions	**300**	3,244
Accrued interest	**12**	9
	13,910	14,095

13. Derivative financial instruments

	Contract notional amount £'000	Fair value – assets £'000	Fair value – liabilities £'000
At 30 November 2021			
Unmatched derivatives – interest rate swaps	18,500	6	(39)
Derivatives designated as fair value hedges – interest rate swaps	111,000	398	(486)
Total recognised derivative assets/(liabilities)	**129,500**	**404**	**(525)**

	Contract notional amount £'000	Fair value – assets £'000	Fair value – liabilities £'000
At 30 November 2020			
Unmatched derivatives – interest rate swaps	23,000	–	(62)
Derivatives designated as fair value hedges – interest rate swaps	172,500	131	(2,953)
Total recognised derivative assets/(liabilities)	195,500	131	(3,015)

All derivative financial instruments are 'over-the-counter' interest rate swaps held for risk management purposes and are bilaterally agreed with the counterparty.

Unmatched derivatives relate to interest rate swaps which have not been matched against loans and advances to customers and savings for hedge accounting purposes at the relevant Statement of Financial Position date.

At 30 November 2021, the fixed interest rates on SONIA swaps vary from -0.06% to 1.29% (2020: -0.06% to 0.17%) and there were no LIBOR swaps (2020: fixed interest rates on LIBOR swaps vary from 0.34% to 1.47%).

In September 2019, the IASB issued amendments to IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9.
The amendments were effective for periods beginning on or after 1 January 2020. These changes were supplemented in August 2020 by further amendments to these accounting standards to provide relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments were effective for periods beginning on or after 1 January 2021. The Society chose to adopt the amendments early in the preparation of the accounts for the year-ended 30 November 2020.

Under the reforms, LIBOR is not expected to be sustained after the end of 2021. Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been three month LIBOR. In August 2021, all remaining LIBOR swaps held were transitioned from LIBOR to the Sterling Overnight Index Average ('SONIA') as the reference rate for the variable leg of swaps, such that from 31 August 2021 the Society had no remaining exposure to LIBOR. The Society took advantage of the above noted reliefs available within IAS 39 during the transition of these interest rate swaps from LIBOR to SONIA.

Notes to the accounts continued

For the year ended 30 November 2021

13. Derivative financial instruments continued

The composition of the portfolio of interest rate swaps used in hedges and held at each year end is shown in the table below.

	2021 £'000	2020 £'000
Notional value of LIBOR swap contracts used in hedges	–	193,500
Notional value of SONIA swap contracts used in hedges	**129,500**	2,000
Total notional value of swap contracts used in hedges held at 30 November	**129,500**	195,500
Notional value of LIBOR swap contracts used in hedges which mature before 31 December 2021	–	89,500
Notional value of LIBOR swap contracts used in hedges which mature after 31 December 2021	–	104,000
Total notional value of LIBOR swap contracts used in hedges	–	193,500

The hedged instruments that are affected by LIBOR reform are shown in the table below.

	2021 £'000	2020 £'000
Carrying value of mortgages hedged by LIBOR swap contracts which mature before 31 December 2021	–	58
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 31 December 2021	–	2,616
Total carrying value of mortgages hedged by LIBOR swap contracts	–	2,674
Carrying value of savings hedged by LIBOR swap contracts which mature before 31 December 2021	–	8
Carrying value of savings hedged by LIBOR swap contracts which mature after 31 December 2021	–	126
Carrying value of savings hedged by LIBOR swap contracts	–	134

The carrying value of mortgages and savings included in hedge relationships is equal to their amortised cost after hedge accounting adjustments.

14. Loans and advances to customers

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

Fair value hedging adjustments have been made to certain fixed rate mortgages that are in effective fair value hedging relationships.

	2021 £'000	2020 £'000
Loans fully secured on residential property	**619,139**	655,266
Loans fully secured on land	–	214
Total loans	**619,139**	655,480
Effective interest rate adjustment	**242**	186
Fair value adjustment for hedged risk	**135**	2,916
	619,516	658,582
Provision for impairment losses	**(553)**	(657)
Loans and advances to customers	**618,963**	657,925

The remaining contractual maturity of loans and advances to customers from the Statement of Financial Position date is as follows:

	2021 £'000	2020 £'000
Repayable on demand	**1,160**	1,046
In not more than 3 months	**5,265**	5,807
In more than 3 months but not more than 1 year	**15,081**	16,623
In more than 1 year but not more than 5 years	**109,346**	111,532
In more than 5 years	**488,664**	523,574
	619,516	658,582
Provision for impairment losses	**(553)**	(657)
Loans and advances to customers	**618,963**	657,925

The maturity analysis above is based on contractual maturity, rather than behavioural or expected maturity, and may not reflect actual experience of repayments since many mortgage loans are repaid early.

The Society has encumbered £95.7m (2020: £133.7m) of mortgage assets through the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) (2020: the Bank of England's Term Funding Scheme). These facilities are accessed via the placement of eligible collateral in the form of approved mortgage portfolios. TFSME and TFS do not involve the transfer of risk on the collateral and hence fail the derecognition criteria under FRS 102. Therefore, for accounting purposes, the underlying collateral is retained on the Statement of Financial Position.

15. Provision for impairment losses on loans and advances

	2021			2020		
	Loans fully secured on residential property			Loans fully secured on residential property		
	Individual provision £'000	**Collective provision £'000**	**Total £'000**	Individual provision £'000	Collective provision £'000	Total £'000
At 1 December	**137**	**520**	**657**	43	400	443
Loan impairment recognised/(released) during the year	**28**	**(132)**	**(104)**	94	120	214
At 30 November	**165**	**388**	**553**	137	520	657

The provisions as at 30 November 2021 and 30 November 2020 have been deducted from loans fully secured on residential property in the Statement of Financial Position.

16. Investments

The Society has the following subsidiary undertaking, in which it directly holds all the issued shares.

	Principal activity	Place of incorporation	Class of shares held	Shares in subsidiary undertakings £	Society interest %
Hinckley & Rugby Financial Services Limited	Non-trading	England	Ordinary	2	100

The company is registered at the same address as the Society (see inside front cover), and has been dormant since 1 December 2004. All shares are £1 ordinary shares. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking. The registered number of the company is 03262800.

Notes to the accounts continued

For the year ended 30 November 2021

17. Tangible fixed assets

	Land and buildings			Office and computer equipment	Fixtures, fittings and vehicles	Tangible fixed assets
	Freehold £'000	Long Leasehold £'000	Short Leasehold £'000	£'000	£'000	£'000
Cost or valuation at 1 December 2020	3,188	427	49	846	2,689	7,199
Additions	–	–	–	138	60	198
Disposals	–	–	–	–	(51)	(51)
Cost at 30 November 2021	**3,188**	**427**	**49**	**984**	**2,698**	**7,346**
Accumulated depreciation at 1 December 2020	154	72	49	634	876	1,785
Charge for the financial year	56	8	–	102	139	305
On disposals	–	–	–	–	(51)	(51)
Accumulated depreciation at 30 November 2021	**210**	**80**	**49**	**736**	**964**	**2,039**
Net book value 30 November 2021	**2,978**	**347**	**–**	**248**	**1,734**	**5,307**
Net book value at 30 November 2020	3,034	355	–	212	1,813	5,414

	2021 £'000	2020 £'000
Net book value of land and buildings occupied by the Society for its own activities	**3,161**	3,222

The net book amount of land which is not subject to depreciation included in the freehold land and buildings at 30 November 2021 is £790,000 (2020 £824,000).

No tangible fixed assets were held under finance leases at 30 November 2021 (2020: none).

18. Investment properties

	Investment properties £'000
Valuation at 1 December 2020	375
Gain on revaluation of investment properties	37
Valuation at 30 November 2021	**412**

At 30 November 2021 the Society's investment property portfolio consisted of two commercial properties and one residential property within the East Midlands (2020: two commercial properties and one residential property). There are formal rental agreements in place to third parties on commercial terms.

The investment properties are held at valuation and were professionally valued at 30 November 2021 on the basis of open market value by Tim Ford BSc (Hons) MRICS IRRV and Nicholas Wint BSc (Hons) FRICS (RICS registered valuer) of Johnson Fellows LLP, who have the required knowledge, skills and understanding to undertake the valuation competently.

If the investment properties had not been revalued, at 30 November 2021 they would have been recognised at a cost of £160,000 (2020: £160,000).

19. Intangible fixed assets

	Computer software £'000
Cost or valuation at 1 December 2020	1,836
Additions	119
Disposals	(1)
Cost or valuation at 30 November 2021	**1,954**
Accumulated amortisation at 1 December 2020	1,051
Charge for the financial year	309
Disposals	–
Accumulated amortisation at 30 November 2021	**1,360**
Net book value at 30 November 2021	**594**
Net book value at 30 November 2020	785

Intangible fixed assets represent the Society's banking systems software which was created by external development firms. Accounting software and regulatory reporting software is also included. The software assets have remaining amortisation periods of between one and five years (2020: between one and five years). There are no other individually material intangible assets.

Additions in the year-ended 30 November 2021 include £nil (2020: £nil) of capitalised staff costs.

20. Other assets

	2021 £'000	2020 £'000
Prepayments	**698**	559
Other debtors	**335**	384
	1,033	943

21. Deferred tax assets and liabilities

	2021 £'000	2020 £'000
Net deferred tax liability		
At 1 December	**(404)**	(3)
Adjustment in respect of prior years	**–**	80
Income Statement charge for the financial year	**(359)**	(90)
Other comprehensive income charge for the financial year	**(479)**	(391)
At 30 November	**(1,242)**	(404)

The net deferred tax liability is attributable to the following items:

	2021 £'000	2020 £'000
Deferred tax liability		
Fixed asset timing differences	**(240)**	(152)
Short term timing differences – trading	**(1,108)**	(558)
	(1,348)	(710)
Deferred tax asset		
Unused tax losses	**106**	306
Net deferred tax liability	**(1,242)**	(404)

There are no unrecognised tax losses or unused tax credits.

On 11 March 2020, the UK government announced that the UK Corporation tax rate from 1 April 2020 would remain at 19%, and this was substantively enacted on 17 March 2020. On 3 March 2021, the UK government announced that the UK Corporation tax rate from 1 April 2023 would increase to 25%, and this was substantively enacted on 24 May 2021. The deferred tax liability at 30 November 2021 has been calculated based on the rate substantively enacted at the Statement of Financial Position date of 25%.

22. Shares

Fair value hedging adjustments have been made to certain fixed rate shares that are in effective fair value hedging relationships.

	2021 £'000	2020 £'000
Held by individuals	**673,961**	668,154
Other shares	**678**	114
	674,639	668,268
Fair value adjustment for hedged risk	**170**	415
	674,809	668,683

Other shares are those held by institutions such as corporate customers, clubs and charities.

Shares are repayable from the Statement of Financial Position date in the ordinary course of business as follows:

	2021 £'000	2020 £'000
Repayable on demand	**432,066**	577,424
In not more than 3 months	**116,783**	34,071
In more than 3 months but not more than 1 year	**59,289**	21,405
In more than 1 year, but not more than 5 years	**66,324**	31,863
	674,462	664,763
Accrued interest	**347**	3,920
	674,809	668,683

Notes to the accounts continued

For the year ended 30 November 2021

23. Amounts owed to credit institutions

Amounts owed to credit institutions are repayable from the Statement of Financial Position date as follows:

	2021 £'000	2020 £'000
In more than 3 months but not more than 1 year	**–**	42,000
In more than 1 year but not more than 5 years	**60,000**	28,000
	60,000	70,000
Accrued interest	**25**	12
	60,025	70,012

24. Amounts owed to other customers

Amounts owed to other customers are repayable from the Statement of Financial Position date as follows:

	2021 £'000	2020 £'000
Repayable on demand	**18,178**	21,537
In not more than 3 months	**–**	3,700
In more than 3 months but not more than 1 year	**279**	277
	18,457	25,514
Accrued interest	**–**	38
	18,457	25,552

25. Other liabilities

	2021 £'000	2020 £'000
Other taxation and social security	**147**	101
Trade creditors	**51**	82
Other creditors	**30**	33
Accruals	**957**	750
	1,185	966

26. Provisions for liabilities, guarantees and other financial commitments

(a) Capital commitments

There were capital commitments of £9,000 at the year-end (2020: £59,000) in respect of Tangible and Intangible fixed assets.

(b) Hinckley and Rugby Pension Scheme Limited

During the year ended 30 November 2019, Hinckley and Rugby Pension Scheme Limited was a wholly owned company limited by guarantee that acted as a corporate trustee for the Hinckley and Rugby Building Society 1969 Staff Pension and Life Assurance Scheme. The Society's maximum exposure under the terms of its guarantee to the company was £1. Hinckley and Rugby Pension Scheme Limited was not a subsidiary of the Society. During 2019, the assets and obligations of the above scheme were transferred to TPT, an organisation that runs pension schemes under a Master Trust arrangement.

During 2020, Hinckley and Rugby Building Society 1969 Staff Pension and Life Assurance Scheme and Hinckley and Rugby Pension Scheme Limited were wound up and the Society's guarantee revoked.

27. Financial instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations. As a result of these activities, the Society is exposed to a variety of risks, the most significant being credit risk, liquidity risk and market risk. These risks are described later in this note.

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

Financial Instrument	Terms and Conditions	Accounting Policy
Cash in hand and balances with the Bank of England	Interest paid at Bank of England base rate Repayable on demand	Amortised cost Accounted for at settlement date
Loans and advances to credit institutions	Fixed or variable interest rates Repayable on demand	Loans and receivables at amortised cost Accounted for at settlement date
Loans and advances to customers	Fixed or variable interest rate Secured on residential property or land Standard contractual term of up to 35 years	Loans and receivables at amortised cost using the Effective Interest Method, other than where adjustment is made as part of a fair value hedging arrangement Accounted for at settlement date
Shares	Fixed or variable interest rates Variable term	Amortised cost using the Effective Interest Method, other than where adjustment is made as part of a fair value hedging arrangement Accounted for at settlement date
Amounts owed to credit institutions	Fixed or variable interest rates Fixed term	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or variable interest rates Fixed or variable term	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest cash flows converted to variable interest cash flows Based on notional value of derivative	Fair value through profit and loss Accounted for at trade date

Notes to the accounts continued

For the year ended 30 November 2021

a) Classification of financial assets and liabilities

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

Carrying values as at 30 November 2021

	Held at amortised cost		Held at fair value		
	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedges £'000	Unmatched derivatives at fair value £'000	Total £'000
Financial assets					
Cash in hand and balances with the Bank of England	–	158,359	–	–	158,359
Loans and advances to credit institutions	13,910	–	–	–	13,910
Derivative financial instruments	–	–	398	6	404
Loans and advances to customers	618,963	–	–	–	618,963
Total financial assets	632,873	158,359	398	6	791,636
Total non-financial assets					11,918
Total assets					803,554
Financial liabilities					
Shares	–	674,809	–	–	674,809
Amounts owed to credit institutions	–	60,025	–	–	60,025
Amounts owed to other customers	–	18,457	–	–	18,457
Derivative financial instruments	–	–	486	39	525
Total financial liabilities	–	753,291	486	39	753,816
Total non-financial liabilities					2,427
Reserves					47,311
Total reserves and liabilities					803,554

The amounts owed to credit institutions include £60m of borrowings from the Bank of England under the Term Funding Scheme (TFSME).

Carrying values as at 30 November 2020

	Held at amortised cost		Held at fair value		
	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedges £'000	Unmatched derivatives at fair value £'000	Total £'000
Financial assets					
Cash in hand and balances with the Bank of England	–	131,146	–	–	131,146
Loans and advances to credit institutions	14,095	–	–	–	14,095
Derivative financial instruments	–	–	131	–	131
Loans and advances to customers	657,925	–	–	–	657,925
Total financial assets	672,020	131,146	131	–	803,297
Total non-financial assets					10,718
Total assets					814,015
Financial liabilities					
Shares	–	668,683	–	–	668,683
Amounts owed to credit institutions	–	70,012	–	–	70,012
Amounts owed to other customers	–	25,552	–	–	25,552
Derivative financial instruments	–	–	2,953	62	3,015
Total financial liabilities	–	764,247	2,953	62	767,262
Total non-financial liabilities					1,370
Reserves					45,383
Total reserves and liabilities					814,015

b) Financial assets and liabilities carried at fair value

The Society holds certain financial assets and liabilities at fair value. Fair value is the value for which an asset or liability could be sold or settled in an arm's length transaction between knowledgeable willing parties. The Society determines fair values using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Valuation techniques where inputs, other than quoted prices included within Level 1, are taken from observable market data for the asset or liability either directly or indirectly.

Level 3 – Valuation techniques where inputs for the asset or liability are not based on observable market data.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 30 November 2021				
Financial assets	**–**	**404**	**–**	**404**
Derivative financial instruments				
Financial liabilities				
Derivative financial instruments	**–**	**525**	**–**	**525**
As at 30 November 2020				
Financial assets				
Derivative financial instruments	–	131	–	131
Financial liabilities				
Derivative financial instruments	–	3,015	–	3,015

The main valuation techniques employed by the Society to determine fair value of the financial instruments disclosed above are set out below:

Derivative Financial Instruments

Level 2 – Interest rate swaps – the valuation of interest rate swaps is based on the net present value method. The expected interest cash flows are discounted using prevailing interest rate yield curves. The yield curves are based on generally observable market data derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

c) Credit risk

Credit risk is the risk of loss if a customer or counterparty fails to perform its obligations. The risk arises from the Society's loans and advances to customers and the investment of liquid assets with treasury counterparties. The Society's exposure to credit risk can be influenced by changes in the wider economy, including unemployment levels, property values, household finances impacting the affordability of mortgages and the credit quality of treasury counterparties. The Society's Board of Directors has defined the Society's risk appetite for credit risk which clearly sets out the level of credit risk the Society is prepared to accept.

The Society's maximum credit risk exposure is detailed in the table below.

	2021 £'000	2020 £'000
Cash in hand and balances with the Bank of England	**158,359**	131,146
Loans and advances to credit institutions	**13,910**	14,095
Derivative financial instruments	**404**	131
Loans and advances to customers	**618,963**	657,925
Other assets	**1,033**	943
Total statement of financial exposure(1)	**792,669**	804,240
Off balance sheet exposure – mortgage commitment(2)	**34,989**	30,306
Total	**827,658**	834,546

(1) All values are stated at balance sheet amounts.

(2) This reflects mortgage applications that have been formally offered but have not yet completed.

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For the year ended 30 November 2021

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

The Society holds treasury investments in order to meet liquidity requirements and for general business purposes. The Board of Directors has defined the Society's risk appetite for credit risk exposure to treasury counterparties by defining within the Financial Risk Management Policy the permissible instruments that can be used, the minimum counterparty credit ratings required and maximum counterparty and sector exposure limits. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval.

Permissible counterparties include supranational bodies, the UK government, UK banks and building societies. The limits for all rated counterparty exposures are linked to Fitch credit ratings in addition to management's own assessment. Unrated building societies are assessed by the Assets & Liabilities Committee (ALCO).

ALCO is responsible for monitoring adherence to the relevant Financial Risk Management Policy limits, with oversight provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society. It receives an independent view of each risk category from the Chief Risk Officer and has access to all ALCO papers.

An analysis of the Society's treasury asset concentration is shown in the table below.

	2021 £'000	**2021 %**	2020 £'000	2020 %
Industry Sector				
Banks	**13,910**	**8%**	14,095	10%
Central banks	**158,148**	**92%**	130,999	90%
Total	**172,058**	**100%**	145,094	100%

An analysis of the Society's treasury assets and derivative financial instruments by credit rating of the counterparty is analysed in the table below.

As at 30 November 2021 Credit quality step	**Total £'000**	**Step 1 AAA to AA- %**	**Step 2 A+ to A- %**	**Step 3 BBB+ to BBB- %**	**Step 4 BB+ to BB- %**
Treasury assets	**172,058**	**95%**	**5%**	**–**	**–**
Derivative financial instruments	**404**	**–**	**100%**	**–**	**–**

As at 30 November 2020 Credit quality step	Total £'000	Step 1 Aaa to Aa3 %	Step 2 A1 to A3 %	Step 3 Baa1 to Baa3 %	Step 4 Ba1 to Ba3 %
Treasury assets	145,094	90%	10%	–	–
Derivative financial instruments	131	–	100%	–	–

All of the Society's treasury assets and derivative financial instruments are held with counterparties that are UK-based or UK branches of overseas institutions.

None of the Society's treasury assets were past due or impaired at 30 November 2021 or 30 November 2020 and no impairment charges were required during the current or prior years.

ii) Loans and advances to customers

The Board of Directors has defined the Society's risk appetite for credit risk exposure to mortgage borrowers by defining within the Lending Policy the framework against which all mortgage applications are assessed in order to promote the origination of a balanced portfolio of mortgage assets that matches the expertise and experience of underwriters. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval. The framework includes:

- The setting and regular monitoring of applicable lending limits, including product, borrower and loan related limits, to avoid concentrations of exposures in higher risk lending categories.
- The setting of full underwriting criteria for each product category, designed to ensure the affordability of mortgage repayments using an affordability model, the adequacy of loan security and the creditworthiness of borrowers through the use of external credit checks.
- The assessment of all new mortgage applications by experienced staff who are accredited through a formal training and competence scheme. Mortgage applications are approved by staff with specific underwriting mandates.
- The use of qualified external property surveyors, solicitors and accountants as necessary to assist the assessment of mortgage applications.
- The prevention of mortgage fraud through thorough mortgage application assessment and use of external fraud prevention systems.
- The pricing of all new mortgage products using a model that incorporates an expected Probability of Default (PD) and Loss Given Default (LGD) to ensure that the return received appropriately reflects the risks involved.
- The use of mortgage indemnity policies to insure the Society against the risk of lending at higher Loan to Value (LTV) ratios and to provide specialist cover for self-build lending.

The Society has a separate Arrears Policy detailing the systems and controls relating to the processes for dealing with arrears and forbearance.

Comprehensive credit risk management information is reviewed at the Credit Committee on a monthly basis and includes mortgage portfolio analysis, details of mortgage arrears, mortgage portfolio stress testing and lending limit monitoring. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society. It receives credit-related management information and an independent view of each risk category from the Chief Risk Officer at each meeting.

Loans and advances to customers are all secured on property in England and Wales. The portfolio is made up of retail loans, split between residential and buy to let loans. In addition, the Society held one longstanding commercial loan at the end of the prior year, which redeemed during the year.

The Society's loans and advances to customers are spread throughout the geographic regions. An analysis of the Society's geographical concentration, gross of provisions, is shown in the table below.

	2021 £'000	**2021 %**	2020 £'000	2020 %
Geographic region				
South East	**128,768**	**20.8%**	139,911	21.3%
London	**135,686**	**21.9%**	133,800	20.3%
West Midlands	**70,364**	**11.4%**	77,994	11.8%
South West	**63,433**	**10.2%**	64,094	9.7%
East Midlands	**53,205**	**8.6%**	61,569	9.4%
North West	**52,979**	**8.6%**	55,180	8.4%
Yorkshire	**48,197**	**7.8%**	53,006	8%
East Anglia	**31,002**	**5%**	32,688	5%
Wales	**20,137**	**3.2%**	23,745	3.6%
North	**15,745**	**2.5%**	16,595	2.5%
Total	**619,516**	**100%**	658,582	100%

The table below shows the indexed loan to value distribution of the loan portfolio at the year-end date.

	2021 %	2020 %
LTV analysis – owner occupied loans		
0% to less than 50%	**43.8%**	37.1%
50% to less than 60%	**19.9%**	16.9%
60% to less than 70%	**22.3%**	19.6%
70% to less than 80%	**10.2%**	18.1%
80% to less than 90%	**2.5%**	7.5%
90% to less than 95%	**0.6%**	0.6%
95% and above	**0.7%**	0.2%
Average loan to value of mortgage loans	**50.8%**	54.5%
Average loan to value of new business in the year	**59.2%**	57.7%

The above values were calculated on a weighted average loan to value basis. The average loan to value of mortgage loans on a simple average basis was 26.3% (2020: 28.3%)

Arrears analysis

The quality of the Society's retail mortgage book is reflected in the number and value of accounts in arrears.

At the year-end, there were 21 accounts (2020: 27 accounts) in arrears of one month or more, representing 0.49% of accounts by number (2020: 0.57%).

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For the year ended 30 November 2021

Arrears analysis

The following table analyses the Society's loans and advances to customers by length of time in arrears and whether or not the balances are impaired, with impairment defined as when a loan requires an individual impairment provision.

	2021 £'000	2020 £'000
Not impaired		
Neither past due or impaired	**615,115**	652,807
Past due up to 3 months but not impaired	**2,097**	3,253
Past due 3 to 6 months but not impaired	**82**	288
Past due 6 to 12 months but not impaired	**115**	77
Past due over 12 months but not impaired	**42**	148
Possessions	**251**	–
Impaired		
Not past due	**–**	–
Past due up to 3 months	**1,072**	1,420
Past due 3 to 6 months	**–**	149
Past due 6 to 12 months	**374**	204
Past due over 12 months	**368**	236
Possessions	**–**	–
Total	**619,516**	658,582

Value of collateral held

	2021 £'000	2020 £'000
Not impaired	**1,769,183**	1,763,644
Impaired	**2,535**	2,615
Total	**1,771,718**	1,766,259

The collateral consists of residential property, with the exception of one commercial property held at the end of the prior year with a value of £701,000, which provided collateral for one longstanding commercial loan that redeemed during the year.

Collateral values are adjusted according to the Nationwide Building Society house price index to derive the indexed valuation at 30 November. The price index is produced on a regional basis and is used to update the property values for residential mortgages on a quarterly basis.

All residential mortgage advances above 80% LTV at origination are covered using mortgage indemnity insurance, such that, once a deductible amount is reached for cases originated during 2016 to 2020, the Society would be reimbursed in the event of taking possession of a property by an amount that would restore the Society to the position it would have been in had the advance been limited to 80% LTV.

Forbearance

The Society uses a range of forbearance options to support customers who are in financial difficulty.

From April 2020 to September 2021, the Society worked with a number of borrowers who needed to defer mortgage payments, under the Financial Conduct Authority (FCA) recommended framework, due to the Covid pandemic and associated income challenges. In line with FCA guidance, borrowers requesting payment deferrals were granted a payment holiday of up to six months. At the end of the prior year, only a small number of the borrowers who took a payment holiday remained on one and these are reflected in the numbers shown in the table and figures provided below for the prior year. At the end of the current year, there were no Covid-related payment holidays remaining.

Subsequent to the availability of Covid payment holidays, the Society considers providing one or more of the options identified below to borrowers facing financial difficulty. The main options offered are:

- Reduced monthly payment including an interest only concession;
- Payment holiday;
- Extension of mortgage term; and/or
- Transfer to a new product which could help to reduce monthly payments.

Customers requesting one of these forbearance options need to provide information to support the request which the Society will use to assess whether it is likely that the preferred arrangement will resolve the customer's financial difficulties.

Accounts on which forbearance has been provided are monitored and borrowers are expected to resume normal payments, including any increase to repay the mortgage at the end of the agreed term, once they are able. Loans that receive forbearance may only be classified as up-to-date once a specified number and/or amount of qualifying payments have been received.

Where forbearance measures are not possible or are considered not to be in the customer's best interests, or where such measures have been tried and the customer has not adhered to the agreed forbearance terms, the Society will consider realising its security and taking possession of the property in order to sell it and clear the outstanding debt.

The table below details the number of accounts subject to forbearance at the year-end.

	2021 Number	2020 Number
Type of forbearance		
Reduced payment including interest only concessions	**1**	–
Arrangements	**–**	–
Payment holidays	**–**	38
Total	**1**	38

In total, £108,000 (2020: £5,469,000) of loans were subject to forbearance at the year-end date. No individual impairment provisions (2020: £27,000) were held against these loans. As noted above, the higher number and balances of loans subject to forbearance in the prior year was due to borrowers who needed to defer mortgage payments under the FCA recommended framework due to the Covid pandemic. The balance of loans at the year-end date that had deferred mortgage payments under the FCA framework during the current or prior year, but which were not subject to forbearance at the year-end, was £74,181,000 (2020: £85,148,000) relating to 445 (2020: 489) borrowers.

d) Liquidity risk

Liquidity risk is the risk that the Society does not have sufficient financial resources to meet its liabilities as they fall due or can secure them only at an excessive cost. The Society's policy is to hold sufficient assets in the form of readily realisable assets in order to:

- maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due;
- smooth out the effect of maturity mismatches between assets and liabilities; and
- maintain the highest level of public confidence in the Society.

The Board of Directors has defined the Society's risk appetite, policy, systems and controls relating to the management of liquidity risk in the Financial Risk Management Policy. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval. The key aspects of the control framework to mitigate liquidity risk are as follows:

- The setting and regular monitoring of applicable liquidity limits, including those covering the amount, instrument type and maturity of liquidity held;
- The monitoring of both short-term and long-term liquidity ratios, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, to ensure that these are maintained above minimum levels;
- The holding of a high quality Liquid Assets Buffer, including deposits with the Bank of England;
- Monthly liquidity stress testing, to ensure that the level of the Liquid Assets Buffer and total liquidity held are sufficient to meet liabilities under severe but plausible stressed conditions; and
- A documented Recovery Plan that sets out the governance processes and the options available to the Society if it experienced a liquidity stress event. The Plan includes a menu of possible actions depending on the severity of the liquidity event.

The minimum level of the Liquid Assets Buffer is set in accordance with an Internal Liquidity Adequacy Assessment Process (ILAAP) that is reviewed by the Board Risk Committee and approved by the Board on an annual basis. The ILAAP incorporates severe but plausible stress testing linked to the Board's formal assessment of the liquidity risks to which the Society is exposed.

The Assets & Liabilities Committee (ALCO) monitors liquidity risk on a monthly basis, including management information on liquidity and funding limits, Liquid Asset Buffer levels and composition, liquidity stress testing results and liquid asset and wholesale borrowing maturity analysis. ALCO reports into the Risk Committee. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society. It receives an independent view of each risk category from the Chief Risk Officer and has access to all ALCO papers.

The table below analyses the Society's assets and liabilities into relevant maturity periods that reflect the residual maturity from the year-end date to the contractual maturity date. The actual repayment profile of loans and advances to customers is likely to be significantly shorter from that shown in the analysis. Conversely, retail savings deposits repayable on demand generally remain with the Society for a much longer period.

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For the year ended 30 November 2021

Balance sheet residual maturity analysis

30 November 2021	On demand £'000	Not more than three months £'000	More than three months but less than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non cash £'000	Total £'000
Assets							
Liquid assets							
Cash in hand and balances with the Bank of England	158,359	–	–	–	–	–	158,359
Loans and advances to credit institutions	13,610	–	–	300	–	–	13,910
Total liquid assets	171,969	–	–	300	–	–	172,269
Derivative financial instruments	–	–	–	–	–	404	404
Loans and advances to customers	1,160	5,265	15,081	109,346	488,664	(553)	618,963
Other non-financial assets	–	–	–	–	–	11,918	11,918
Total assets	173,129	5,265	15,081	109,646	488,664	11,769	803,554
Liabilities							
Shares	432,413	116,783	59,289	66,324	–	–	674,809
Amounts owed to credit institutions		25	–	60,000	–	–	60,025
Amounts owed to other customers	18,178	–	279	–	–	–	18,457
Derivative financial instruments	–	–	–	–	–	525	525
Other liabilities	–	–	–	–	–	2,427	2,427
Reserves	–	–	–	–	–	47,311	47,311
Total liabilities and reserves	450,591	116,808	59,568	126,324	–	50,263	803,554
Net liquidity gap	(277,462)	(111,543)	(44,487)	(16,678)	488,664	(38,494)	–

30 November 2020	On demand £'000	Not more than three months £'000	More than three months but less than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non cash £'000	Total £'000
Assets							
Liquid assets							
Cash in hand and balances with the Bank of England	131,146	–	–	–	–	–	131,146
Loans and advances to credit institutions	10,851	–	–	3,244	–	–	14,095
Total liquid assets	141,997	–	–	3,244	–	–	145,241
Derivative financial instruments	–	–	–	–	–	131	131
Loans and advances to customers	1,046	5,807	16,623	111,532	523,574	(657)	657,925
Other non-financial assets	–	–	–	–	–	10,718	10,718
Total assets	143,043	5,807	16,623	114,776	523,574	10,192	814,015
Liabilities							
Shares	581,344	34,071	21,405	31,863	–	–	668,683
Amounts owed to credit institutions	–	12	42,000	28,000	–	–	70,012
Amounts owed to other customers	21,575	3,700	277	–	–	–	25,552
Derivative financial instruments	–	–	–	–	–	3,015	3,015
Other liabilities	–	–	–	–	–	1,370	1,370
Reserves	–	–	–	–	–	45,383	45,383
Total liabilities and reserves	602,919	37,783	63,682	59,863	–	49,768	814,015
Net liquidity gap	(459,876)	(31,976)	(47,059)	54,913	523,574	(39,576)	–

Analysis of gross contractual cash flows payable under financial liabilities

30 November 2021	**On demand £'000**	**Not more than three months £'000**	**More than three months but less than one year £'000**	**More than one year but not more than five years £'000**	**More than five years £'000**	**Total £'000**
Shares	**293,457**	**119,491**	**166,722**	**98,689**	**–**	**678,359**
Amounts owed to credit institutions	**–**	**–**	**–**	**60,840**	**–**	**60,840**
Amounts owed to other customers	**9,303**	**5,562**	**279**	**–**	**–**	**15,144**
Non-derivative financial instruments	**302,760**	**125,053**	**167,001**	**159,529**	**–**	**754,343**
Derivative financial instruments	**–**	**193**	**879**	**1,223**	**4**	**2,299**
Total financial liabilities	**302,760**	**125,246**	**167,880**	**160,752**	**4**	**756,642**

30 November 2020	On demand £'000	Not more than three months £'000	More than three months but less than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Total £'000
Shares	284,993	115,735	150,352	122,511	–	673,591
Amounts owed to credit institutions	–	–	42,168	28,112	–	70,280
Amounts owed to other customers	13,672	10,319	279	–	–	24,270
Non-derivative financial instruments	298,665	126,054	192,799	150,623	–	768,141
Derivative financial instruments	–	460	1,009	1,720	–	3,189
Total financial liabilities	298,665	126,514	193,808	152,343	–	771,330

The analysis of gross contractual cash flows differs from the analysis of residual maturity, due to the inclusion of interest accrued at current rates for the average period of maturity on the amounts outstanding at the Statement of Financial Position date. The contractual cash flows do not make allowance for any accounts that have been placed on notice of withdrawal by the customer. The impact of such notice is not material to the analysis.

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For the year ended 30 November 2021

e) Market risk

The Society's exposure to market risk primarily arises from interest rate risk, including interest rate repricing risk and basis risk.

Interest rate repricing risk is the risk of a reduction in net interest income due to mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates. The main cause of interest rate repricing risk is the imperfect matching of fixed rate mortgages and savings products. While the Society aims to match fixed rate assets with liabilities, it is not always possible to achieve exact matches due to the need to estimate initial customer demand for mortgage and savings products and the early repayment of mortgages. Interest rate derivatives are utilised to reduce mismatches where economic to do so, but remain susceptible to the early repayment of fixed rate products by customers.

Basis risk is the risk of a reduction in net interest income due to assets and liabilities repricing according to different interest rate bases.

i) Interest rate derivatives

The Society uses derivative financial instruments ('derivatives'), which are contracts or agreements whose current value is related to an underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Acts 1997 and 2005), to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. The Society does not trade in derivatives or use them for speculative purposes.

The principal derivatives used by the Society are interest rate swaps which are used to hedge exposures arising from fixed rate mortgage and savings products. An interest rate swap is a contract with a counterparty based on a notional principal amount to exchange one set of interest rate cash flows for another for a specific duration, usually between one and five years.

The following table describes the significant activities undertaken by the Society, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. The Society applies fair value hedging techniques to these. The fair value of these hedges at the year-end is shown in note 13.

Activity	Risk	Type of hedge
Fixed rate mortgage products	Increases in interest rates	Pay fixed interest rate swaps
Fixed rate savings products	Decreases in interest rates	Receive fixed interest rate swaps

ii) Interest rate risk management

The Board of Directors has defined the Society's risk appetite for interest rate repricing risk by defining within the Financial Risk Management Policy a maximum limit for the impact of a 2% shift in interest rates on the economic value of the Society. In addition to the risk appetite, the Board has set individual and cumulative gap limits for each time period analysed. Any changes in policy are submitted to the Risk Committee for consideration before recommendation to the Board for approval.

In order to manage interest rate repricing risk, an interest rate gap report is prepared showing how assets and liabilities reprice or mature over time. ALCO monitors historic and projected gap analyses and the results of stress tests assessing the impact of a shift in interest rates as a percentage of capital on a monthly basis in order that timely hedging actions can be taken. The stress tests include various parallel and non-parallel interest rate shifts to ensure that a range of scenarios are modelled and considered.

Exposures to different interest rate bases are monitored against Board-approved limits, and stress tests assessing the impact of a range of asymmetric changes in different interest rate bases are monitored. Oversight is provided by the Risk Committee, which is responsible for the oversight and challenge of risk management across the Society. It receives an independent view of each risk category from the Chief Risk Officer and has access to all ALCO papers.

The table below summarises the Society's exposure to interest rate risk at the year-end date. Included in the table are Society assets and liabilities, including derivative financial instruments, categorised by repricing date.

30 November 2021	**Not more than three months £'000**	**More than three months but not more than six months £'000**	**More than six months but not more than one year £'000**	**More than one year but not more than five years £'000**	**More than five years £'000**	**Non interest-bearing £'000**	**Total £'000**
Cash in hand and balances with the Bank of England	**158,359**	**–**	**–**	**–**	**–**	**–**	**158,359**
Loans and advances to credit institutions	**13,898**	**–**	**–**	**–**	**–**	**12**	**13,910**
Total liquid assets	**172,257**	**–**	**–**	**–**	**–**	**12**	**172,269**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**404**	**404**
Loans and advances to customers	**340,934**	**27,509**	**47,992**	**202,528**	**–**	**–**	**618,963**
Other assets	**–**	**–**	**–**	**–**	**–**	**11,918**	**11,918**
Total assets	**513,191**	**27,509**	**47,992**	**202,528**	**–**	**12,334**	**803,554**
Liabilities							
Shares	**525,694**	**19,356**	**33,429**	**95,983**	**–**	**347**	**674,809**
Amounts owed to credit institutions and other customers	**78,178**	**–**	**279**	**–**	**–**	**25**	**78,482**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**525**	**525**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**2,427**	**2,427**
Reserves	**–**	**–**	**–**	**–**	**–**	**47,311**	**47,311**
Total liabilities	**603,872**	**19,356**	**33,708**	**95,983**	**–**	**50,635**	**803,554**
Off balance sheet items	**114,398**	**(6,997)**	**(18,493)**	**(92,874)**	**3,966**	**–**	**–**
Net interest rate gap	**23,717**	**1,156**	**(4,209)**	**13,671**	**3,966**	**(38,301)**	**–**

The interest rate sensitivity gap of the Society at 30 November 2020 was:

30 November 2020	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non interest-bearing £'000	Total £'000
Cash in hand and balances with the Bank of England	131,146	–	–	–	–	–	131,146
Loans and advances to credit institutions	14,086	–	–	–	–	9	14,095
Total liquid assets	145,232	–	–	–	–	9	145,241
Derivative financial instruments	–	–	–	–	–	131	131
Loans and advances to customers	358,284	27,012	57,552	215,077	–	–	657,925
Other assets	–	–	–	–	–	10,718	10,718
Total assets	503,516	27,012	57,552	215,077	–	10,858	814,015
Liabilities							
Shares	515,553	15,661	15,140	118,409	–	3,920	668,683
Amounts owed to credit institutions and other customers	95,236	–	278	–	–	50	95,564
Derivative financial instruments	–	–	–	–	–	3,015	3,015
Other liabilities	–	–	–	–	–	1,370	1,370
Reserves	–	–	–	–	–	45,383	45,383
Total liabilities	610,789	15,661	15,418	118,409	–	53,738	814,015
Off balance sheet items	157,479	(23,496)	(40,992)	(95,717)	2,726	–	–
Net interest rate gap	50,206	(12,145)	1,142	951	2,726	(42,880)	–

Market risk sensitivities

The Society uses derivative financial instruments and exposure limits to mitigate the effect of adverse interest rate movements on net interest income. At 30 November 2021 the impact of a 2% parallel increase in interest rates (measured using calculated interest rate gap positions) was £991,000 adverse across the gap report horizon (2020: £383,000 favourable). At 30 November 2021 the impact of a 2% parallel decrease in interest rates (measured using calculated interest rate gap positions) was £1,093,000 favourable across the gap report horizon (2020: £428,000 adverse).

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Offsetting financial assets and financial liabilities

The Society has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts and which may be settled net. However the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes, as the right to set off is not unconditional in all circumstances. The amounts relate to derivative financial instruments and associated financial collateral, which consists of cash that is settled, typically daily or weekly, to mitigate marked to market exposures. The agreements under which the collateral is settled typically allow either counterparty to offset the relevant amounts if the other counterparty defaults on the terms of the derivative contract.

The amounts for which offsetting arrangements were in place are as follows:

	2021 £'000	2020 £'000
Fair value of derivative financial instrument liabilities	**(525)**	(3,015)
Associated collateral	**300**	3,244
Net amount after offsetting	**(225)**	229

28. Capital adequacy

The objective of the Board is to maintain a strong capital base to provide protection for members, promote market confidence and support future growth. The Society is required to manage its capital to meet the requirements of the Capital Requirements Directive (CRD IV) and related requirements set by the Prudential Regulation Authority.

The Society operates a formal Internal Capital Adequacy Assessment Process (ICAAP) to determine and demonstrate how these requirements are met. As part of the ICAAP the Board has established an internal minimum capital requirement that is sufficient to support present and future capital requirements, withstand a severe but plausible stress and ensure the minimum regulatory requirement (Total Capital Requirement) is adhered to. Compliance with capital requirements is monitored monthly, the results of which are reported to the Assets & Liabilities Committee. The Society complied with and maintained capital above the regulatory minimums during the reporting period.

Under CRD IV Pillar 3, the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 Disclosures are available on the Society's website.

Summary capital position

	2021 £'000	2020 £'000
Common Equity Tier 1		
Total reserves	**47,311**	45,383
Adjustments to regulatory capital	**(4,129)**	(3,688)
Common Equity Tier 1	**43,182**	41,695
Tier 2 capital		
Collective provision	**388**	520
Total regulatory capital	**43,570**	42,215
Risk Weighted Assets (unaudited)	**252,504**	265,821
Capital ratios (unaudited)		
Common Equity Tier 1 ratio	**17.1%**	15.7%
Total capital ratio	**17.3%**	15.9%
Leverage ratio	**5.3%**	5.1%

29. Post employment benefits

Defined benefit pension scheme

The Society's defined benefit pension scheme was closed to future accrual on 1 January 2010. The assets of the scheme are held separately from those of the Society under a Master Trust arrangement operated by TPT.

Members of the scheme receive benefits based on their final salary for service to 31 May 2008 and on career average earnings while a member of the scheme after this date, until the closure of the scheme to future accrual on 1 January 2010. The plan also provides benefits to spouses/dependants in the event of a member's death before or after retirement.

Scheme expenses will be paid by the scheme and subsequently reimbursed by the Society upon request of the Trustee. The Society expects to contribute approximately £81,000 to the defined benefit scheme in respect of such expenses in the next financial year.

The valuation used was based on the most recent full actuarial valuation at 30 September 2019 and updated to 30 November 2021 by a qualified independent actuary to take account of the actuarial method and assumptions required by Section 28 of FRS 102.

The amounts recognised in the balance sheet are:	**2021 £'000**	2020 £'000
Present value of funded obligations	**(30,209)**	(29,931)
Fair value of plan assets	**34,781**	33,132
Total surplus recognised	**4,572**	3,201

The directors' judgement, based on legal opinion, is that the Society has the right to a surplus on winding up the scheme at the end of its life. As a result, the surplus at the current and prior year-ends has been recognised on the Society's Statement of Financial Position.

Amounts recognised in the Income Statement are:	**2021 £'000**	2020 £'000
Expected return on plan assets	**511**	591
Interest cost	**(461)**	(569)
Expenses	**(81)**	(78)
Total expense recognised in the Income Statement	**(31)**	(56)

Re-measurements recognised in Other comprehensive income:	**2021 £'000**	2020 £'000
Actuarial gains on plan assets	**1,951**	3,470
Actuarial losses on obligations	**(628)**	(1,415)
Total gain recognised in Other comprehensive income	**1,323**	2,055

Reconciliation of change in defined benefit obligation:	**2021 £'000**	2020 £'000
Opening defined benefit obligation at 1 December	**29,931**	28,917
Interest cost	**461**	569
Actuarial losses on obligation	**628**	1,415
Benefits paid	**(811)**	(970)
Closing defined benefit obligation at 30 November	**30,209**	29,931

Notes to the accounts continued

For the year ended 30 November 2021

Reconciliation of change in plan assets:	2021 £'000	2020 £'000
Fair value of plan assets at 1 December	**33,132**	30,041
Expected return on plan assets	**511**	591
Actuarial gains on assets	**1,951**	3,470
Scheme expenses	**(81)**	(78)
Contributions paid by the employer	**79**	78
Benefits paid	**(811)**	(970)
Fair value of plan assets at 30 November	**34,781**	33,132

The major categories of plan assets, measured at fair value are:	2021 £'000	2020 £'000
Diversified Growth Fund	**7,994**	11,471
Gilts, bonds and Liability Driven Investments (LDI) strategy assets	**26,463**	21,417
Cash	**324**	244
Total fair value of plan assets at 30 November	**34,781**	33,132

Return on plan assets:	2021 £'000	2020 £'000
Expected return on plan assets	**511**	591
Actuarial gains on assets	**1,951**	3,470
Total return on plan assets	**2,462**	4,061

At the prior year end, plan assets included £117,637 held in a Society savings account. This savings account was closed in February 2021.

At the current and prior year-ends, the impact of GMP equalisation was included in the calculation of the defined benefit pension obligation.

Principal actuarial assumptions as at the Statement of Financial Position date:	2021 £'000	2020 £'000
Discount rate	**1.62%**	1.56%
Rate of future inflation – RPI (% pa)	**3.46%**	3.05%
Rate of future inflation – CPI (% pa)	**2.81%**	2.40%
Rate of increase (% pa) in future pensions in payment, split:		
– Inflation linked (RPI), with a maximum of 5% pa and a minimum of 3% pa	**3.75%**	3.60%
– Inflation linked (RPI), with a maximum of 2.5% pa	**2.20%**	2.05%
The mortality assumptions used were as follows:		
– Actuarial tables used	**S3PXA**	S3PXA
– Loading on base tables	**99%**	99%
– Improvement rate for Males / Females	**CMI 2020 1.25%/1.00%**	CMI 2019 1.25%/1.00%
Life expectancy from age 65 of:		
– Male/Female pensioner currently aged 65 at year-end date	**22.1/24.2**	22.2/24.2
– Male/Female non-pensioner currently aged 45 at year-end date	**23.4/25.4**	23.5/25.4
Allowance for members to commute pension for tax-free cash	**75%**	75%

The Society updated its approach to setting RPI and CPI inflation assumptions in the prior year, in light of the RPI reform proposals published on 4 September 2019 by the UK Chancellor and UK Statistics Authority.

The Society continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been set at 0.3% at the year-end (2020: 0.2%), the increase reflecting an allowance for additional market distortions caused by the RPI reform proposals, and resulting in a reduction in scheme liabilities of £0.3m. For CPI, the assumed difference between the RPI and CPI was 0.65% (2020: 0.65%).

Defined contribution pension scheme

From 1 January 2010, employees have had the opportunity to participate in a stakeholder scheme to which the Society contributes a defined percentage of salary. The employer pension cost for the current year, excluding employee contributions paid by salary sacrifice, was £259,000 (2020: £234,000) and there were no outstanding or prepaid contributions at 30 November 2021 (2020: £nil).

30. Leases

The future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	2021 Land and buildings £'000	**2021 Fixtures and fittings £'000**	2020 Land and buildings £'000	2020 Fixtures and fittings £'000
Payment due				
(i) less than 1 year	**63**	**4**	63	10
(ii) within 2 – 5 years	**202**	**–**	238	4
(iii) after 5 years	**1,031**	**–**	1,088	–
	1,296	**4**	1,389	14

The Society has no other off balance sheet arrangements.

31. Country-by-country reporting

The regulations under Article 89 of the CRD IV require the Society to disclose the following information about the source of the Society's income and the location of its operations:

- Name, nature of activities and geographical location: The Society has one dormant subsidiary and operates only in the United Kingdom. The principal activities of the Society are noted in the Directors' report on pages 26 to 28.
- Average number of employees: as disclosed in note 8 to the accounts.
- Annual turnover: equivalent to total income and along with profit before tax is as disclosed in the Income Statement on page 36.
- Corporation Tax paid: £nil for the current and prior year.
- Public subsidies: there were none received in the year.

Annual Business Statement

For the year ended 30 November 2021

1. Statutory percentages

	2021 %	2020 %	Statutory Limit %
Lending limit	**1.0**	0.7	25.0
Funding limit	**10.4**	12.5	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

Business assets comprise the total assets of the Society plus collective impairment provisions for bad and doubtful debts less tangible and intangible fixed assets as shown in the Society's accounts.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2021 %	2020 %
As percentage of shares and borrowings:		
Gross capital	**6.3**	5.9
Free capital	**5.5**	5.2
Liquid assets	**22.9**	19.0
Profit for the financial year as a percentage of mean total assets	**0.13**	0.07
Management expenses as a percentage of mean total assets	**1.22**	1.06

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

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents the general reserve and the available for sale reserve.
- 'Free capital' represents the aggregate of gross capital and loan loss provisions for bad and doubtful debts less fixed assets.
- 'Liquid assets' represent the total of cash in hand, loans and advances to credit institutions, debt securities and other liquid assets.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Management expenses' represent the aggregate of administrative expenses (including pension costs), depreciation and amortisation.

3. Information relating to directors and other officers

Directors

Name	Year of birth	Date of appointment	Occupation	Other directorships
Colin Franklin (Chairman)	1955	24.06.15	Retired Building Society Executive	Hinckley and Rugby Financial Services Limited
Colin Fyfe	1967	01.11.18	Building Society Executive	Hinckley and Rugby Financial Services Limited Ahead Partnership Limited Ahead Partnership (Holdings) Limited Hinckley Town Centre Partnership
Geneane Bell	1957	17.07.13	Retired Bank Executive	None
John Mulvey	1975	01.04.20	Building Society Executive	Hinckley and Rugby Financial Services Limited
Barbara Taeed	1966	22.03.17	Retired Bank Executive	Centre for Citizenship Enterprise and Governance Limited Rothbadi Holdings Limited
Dean Waddingham	1960	17.05.17	Building Society Executive	None
Gary Wilkinson	1961	22.12.14	Company Director	Redwood Bank Limited Acorn (Leicester) Limited Mode Global Holdings PLC
David Woodward (Senior Independent Director)	1962	21.01.15	Company Director	Hinckley and Rugby Financial Services Limited Consumers' Association United Lincolnshire Hospital NHS Trust
Nemone Wynn-Evans	1974	22.03.17	Company Director	Shepherd's Friendly Society Good Energy Group PLC

Documents may be served on any of the directors at the Society's Head Office at Upper Bond Street, Hinckley, Leicestershire LE10 1NZ.

Dean Waddingham, Colin Fyfe and John Mulvey are employed on service contracts which were entered into on 18 April 2017, 11 September 2018 (effective from 1 November 2018) and 17 April 2020 (effective from 30 March 2020) respectively. In each case the director is entitled to twelve months' notice of termination from the Society. Dean Waddingham and John Mulvey are required to give six months' notice of an intention to resign, and Colin Fyfe is required to give twelve months' notice of an intention to resign.

Dean Waddingham has given notice of his intention to retire as a director with effect from 31 May 2022.

Other officers

Name	Occupation	Other directorships
Andrea Belle	Head of Branches, Agencies and Savings	None
Lisa Bengi	Head of Human Resources	Open Thinking Partnership
Rebecca Griffin	Chief Risk Officer	None
Margaret Long	Secretary and Governance Manager	None
Michael Sharpe	Head of Information Services and Change	None
Carolyn Thornley-Yates	Head of Mortgage Proposition and Distribution	LAMP Advocacy
Sarah Johnson	Head of Underwriting	None
Cheryl Pidler	Head of Operations	George Business Solutions Ltd

Designed by Radley Yeldar

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