



# Hanley

ECONOMIC

Building Society



## Annual Report & Accounts 2022

For the year ended 31 August 2022

# Contents

Chair's Statement	3
Chief Executive's Business Review	4
Directors' Report	6
Directors' Profiles	17
Directors' Remuneration Report	19
Corporate Governance	21
Audit & Compliance Committee Report	26
Directors' Responsibilities	29
Independent Auditor's Report to the Members	30
Income Statement and Statement of Comprehensive Income	36
Statement of Financial Position	37
Statement of Changes in Members' Interests	38
Statement of Cash Flow	39
Notes to the Accounts	40
Annual Business Statement	68

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

Copies of the Society's Annual Report & Accounts are available on request from the Registered Head Office or from the Hanley Economic website.

Member of the Building Societies Association  
Shares and deposits in this Society are trustee investments  
Established 1854

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

Tel: **(01782) 255000**  
Email: **customerservices@thehanley.co.uk**  
**www.thehanley.co.uk**

Register No. 248B



# Chair's Statement



I am delighted to present to you the 2022 Annual Report and Accounts for your Society. The past year has once again provided a backdrop of rapidly changing economic conditions, both domestic and international. The continuing impact of the pandemic, an ever evolving UK political landscape and the geopolitics with the war in Ukraine has had immediate and wide-ranging impact at home and across the globe. However, I would like to reassure you that your Society remains strong and in good health. We continue to deliver the key strategic objectives and remain true to our clear purpose of helping our Members save for their futures and own their own homes.

## Operations

From an operational perspective, the Leadership Team and the Board have been intensely focussed on the implementation of the new core system platform for the Society which we have previously announced. This has been a major undertaking to enable us to offer amongst other things online banking, a contemporary and much more responsive mortgage broker portal and a Mobile Application, as well as retaining all our traditional channels.

Mark Selby, our CEO will provide more detail in his report, but clearly the untimely emergence of COVID-19 and the subsequent lockdowns just as we had started on the project resulted in some meaningful delays and extra costs. With extraordinary effort from all involved, the vast majority of the system is now up and running, some of which we hope you will already have had the opportunity to experience. We believe this is a landmark moment for the Society and will enable us to look forward with confidence that we have invested for the future sustainability of our business.

## Financial Performance

Financially, you will recall that we had planned more modest volumes of new business this year to ensure we were able to have adequate resources available for the core system transition whilst maintaining our levels of service.

More detailed information on our financial performance follows later in this report. We are delighted that our profit for the year has come in ahead of plan. The volume of mortgages written within expectations, whilst our liquidity is strong and our reserves are well in excess of regulatory requirements.

## Board Appointments

The past year has seen some changes also at Board level as we said farewell to Simon Woodings and Liz Whitfield. Simon completed two successive 3-year terms as a Non-Executive Director serving on a number of the Board committees and as Chair of the Remuneration Committee. Liz has left us to spend more time with her very successful and fast growing business. She had been with us for 2 years including as a member of the Audit and Compliance Committee. We are enormously grateful to them both for their wholehearted commitment and contributions to the Society.

In line with our nominations and succession planning policies, we appointed a professional search firm to conduct a wide ranging and targeted search for two new Non-Executive Directors. We are delighted to have appointed Gill Davidson and Susan Shardlow as new Non-Executive Directors of the Society. Gill has deep knowledge of financial services and the building society sector in particular, as well as having most recently been a Chief Risk Officer. Susan is a hugely experienced Finance Director and qualified accountant who has lived in and around Stoke for many years. You will have the opportunity to learn more about them both as they are presented for election at the AGM.

## Colleague Acknowledgements

Finally, I should, on behalf of the Board, recognise the outstanding contribution that each and every one of our colleagues has made over the last year. We are immensely proud of what they do to ensure we offer the best service we can to you, our Members. Colleagues have also worked so hard to bring our new core systems online. This has asked a huge amount of them all, and at a time when the world outside work has not always been easy.

We know that the year ahead will undoubtedly present many challenges for us all. But we believe we are well positioned to deliver the best we can on your behalf.

Nick Jordan

Chair

27 October 2022



# Chief Executive's Business Review

The second year of the pandemic and our systems transition has proved both successful and challenging. The whole team at the Society has been outstanding. We've maintained Member service and supported those Members on furlough or struggling with their mortgages. At the same time, we have also managed to move to a new system on mortgages, and launch our new online banking service and mobile phone application.

In addition, we have sold the final residential development portfolios that the Society needed to take into possession after the global banking crisis. These portfolios were a weight on the Society's margin and reputation for nearly fifteen years.

Despite periods when lending products were unavailable during the transition to the new system, we have beaten profit and growth budgets and achieved more than 90% of our gross lending budget. Liquidity and capital have remained strong and well in excess of regulatory requirements. Mortgage growth was tempered by the ongoing new core system project and the successful sale of the Society's legacy residential development properties, with one legacy buy to let portfolio remaining.

Throughout the pandemic and core system project we have avoided any colleagues being furloughed or having reduced hours. This was reflected when we were listed in the Sunday Times, as one of the top 100 medium sized companies to work for in the UK (number 42) during this period. With the continued financial strength of the business, we have been able to provide cost of living pay rises to all colleagues in 2021 and 2022.

As savings rates have begun to rise following Base Rate changes at the Bank of England, the Society has also raised rates twice for savers and continues to constantly review our products and pricing. We are very aware that savers in general have seen relatively poor rates since the banking crisis. While the Bank's Base Rate has no direct impact on the Society's costs of funding model, as mortgage market rates rise, we will seek to reward savers accordingly.



## Summary Results

Key Performance Indicators	2022	2021	2020	Movement
	£'000	£'000	£'000	%
Operating Profit	790	769	833	2.75%
Profit after tax	711	664	737	7.02%
Liquidity	122,244	99,092	86,439	23.36%
Mortgage balances	337,492	366,606	375,253	(7.94%)
Retail savings	417,061	415,207	395,019	0.45%
Reserves	29,978	29,449	28,815	1.80%

## Investing in the Future

The project to transition to a new core system has taken longer than originally planned, as our supplier needed to make significant changes to the software to meet our requirements. We also undertook extensive testing to ensure the robustness of the system. This has been taxing for the team and required great effort and tenacity from many colleagues. In support of this, the Board remains committed to ensuring the long-term relevance and viability of the Society. We believe technology is essential to sustain the Society for the future and therefore an investment that should not be avoided.

Early performance has been encouraging and while there are still issues to resolve, the Society has been able to achieve record monthly lending through the new platform during the latter part of the financial year. This success, along with the additional functionality for Members, customers and brokers demonstrates the potential for future growth.

## Hanley Financial Services Partnering with Principle Wealth Solutions (PWS)

Hanley Financial Services (HFS) has provided advice and support for Members with both investments and Protection since 2001. The Board have decided to sell HFS to PWS, the Stafford Independent Financial Advisors. The Board want to continue offering this service to Members and have concluded that selling to a local firm is the best way to sustain this service for the future. We expect PWS will continue to offer at least the same level of service that those Members who use HFS have enjoyed in the last few years.



# Chief Executive's Business Review

Continued

## Colleague Engagement

Creating and nurturing a great place to work for colleagues is a key objective for the Board. We have sustained levels of engagement throughout the pandemic. We have also been able to support everyone with meaningful pay reviews - linked to performance and cost of living rises. As the UK emerged from restrictions, we were still reporting high levels of staff satisfaction.

However, like most organisations, as the pandemic lifted we experienced an increase in colleague turnover. Some colleagues decided to retire early, others have been attracted by offers of higher salaries elsewhere. Whilst this degree of turnover is high for the Society it remains low in terms of market comparisons. We expect this to settle in 2023.

## Charities

This year, as we have for many years, we have donated significantly to the Dougie Mac Hospice through the support of our Dougie Mac savings account. This year, we have given £32,947 and more than £275,000 over the years. In addition to this, through our local Charity Saver account interest donation made by the Society, we have donated £13,367 split between our four partner charities - Alice, Glow, Dougie Mac and YMCA. Since 2019, we have donated over £30,000.

Over the next twelve months we are planning on a complete review of our community work and how we support local charities. We will aim to communicate more of this in next year's AGM pack.

## Climate Change

The Society wishes to be socially responsible in the products and services we offer and in the way we run our business. We continue to progress with our environmental plan to address climate change which is being led by the Head of Risk.

We have engaged with a third-party supplier to assess the impact of climate change on our mortgage book to determine ways in which we can support borrowers to improve the efficiency of their homes. We also plan to undertake an evaluation of the Society operations to quantify our carbon footprint which will then be used as a baseline to determine the roadmap to being carbon neutral.

Steps we have already taken include the deployment of LED lighting in our head office and branches and the installation of an electric vehicle charging point in our head office car park.

## Outlook

The UK is clearly facing a period of extraordinary political and economic uncertainty. The economy is forecast to possibly enter a recession and may take time to recover. This is likely to affect the housing market which may impact trading for the Society. Lending opportunities will always be available but the changes in the market may impact on margin. There is also the prospect of rising numbers of people struggling to maintain mortgage payments. The Society has a history of successfully supporting Members with their mortgages and has capital that is sufficiently strong enough to weather this period.

Mark Selby  
Chief Executive Officer  
27 October 2022

## Our Society's Vision

***"To grow a strong and sustainable business helping Members save for their futures and own their own homes."***



# Directors' Report

The Directors are pleased to present their Annual Report, together with the Group and Society Accounts and Annual Business Statement, for the year ended 31 August 2022. The Group comprises Hanley Economic Building Society ("the Society") and Hanley Financial Services.

## Business Strategy and Objectives

The Board has developed a strategy to deliver its vision "to grow a strong and sustainable business helping Members to save for their futures and own their own homes".

### We value...



The support of our Members



The commitment, loyalty and continued development of our staff



The diversity that mutuality brings to the financial services market

### We are dedicated to...



Promoting savings and home ownership



Outstanding customer service



Fairness in all that we do



Making a positive impact in our local community

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

## Key Performance Indicators

The Board use a number of key performance indicators to monitor the development, performance and position of the Society on an ongoing basis. These are included to give Members a more comprehensive understanding of the Society's progress over the last three years. The Directors are satisfied with the Society's performance, summarised as one of long term sustained growth in both savings and mortgages, together with a positive contribution to the Society's capital base.

Key Performance Indicators	2022	2021	2020
Total Assets (£'000)	470,499	471,040	465,602
Asset Growth	(0.11%)	1.17%	4.17%
New Mortgage Lending (£'000)	60,711	69,028	93,632
Mortgage Growth	(7.94%)	(2.30%)	5.42%
Retail Shares Balance net increase / (£'000)	1,854	20,188	19,933
Total Retail Shares and Deposit Growth	0.89%	5.32%	4.38%
Post-tax profit (£'000)	711	664	737
Gross Capital (% of shares and deposit liabilities)	6.83%	6.69%	6.63%
Free Capital (% of shares and deposit liabilities)	5.61%	5.68%	6.01%
Liquid Assets (% of shares and deposit liabilities)	27.84%	22.50%	19.88%
Management Expenses (% of mean total assets)	1.50%	1.34%	1.19%

# Directors' Report

Continued

## Assets

Total assets have decreased during the year by 0.11% (2021: 1.17% increase) from £471.04m to £470.50m, principally as a result of the planned slowing of mortgage business whilst engaged in the core system migration. Although the 7.94% mortgage asset reduction was dominant in the overall asset change for the Society, growth was seen in retail savings balances of £1.85m and as a consequence liquidity rose by £23.15m.

## Lending

Mortgage balances have decreased by £29.11m in the year to £337.49m (2021: £366.61m), with gross lending (the total value of all new mortgage advances) of £60.71m (2021: £69.03m). Lending has been consciously reduced as the Society focused on core system migration, through limited new product releases.

In keeping with the Society's mutual status, new lending in the year has been predominately secured on residential property to owner occupiers with 77.41% of the total advanced over the financial year (2021: 67.32%). The remaining 22.59% (2021: 32.68%) has been secured against residential buy to let or self-build properties.

Redemptions in the year were £68.43m (2021: £60.54m), as a result of a turbulent economic year and our core system migration. The Society continues to innovate in regards to mortgage products, receiving accolades and ensuring position within core lending arenas is maintained. This recognition underlines our continued commitment in helping both aspiring first time buyers to get on to the property ladder, and supporting existing home owners with their re-mortgage aspirations.

Whilst the Society acknowledges the desire to support Members in its heartland, the role of the mortgage broker is also recognised, with 65.15% (2021: 54.11%) of advances sourced through mortgage brokers.

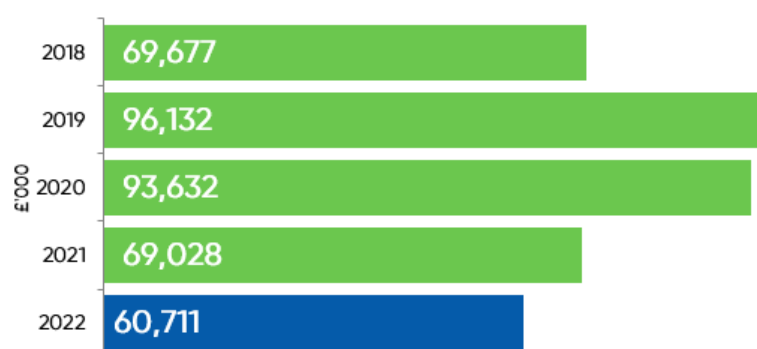
The Society's exposure to residential properties by way of mortgages is 98.93% (2021: 98.00%). Included in loans secured on residential property is 1 case (2021: 5), with a balance outstanding of £1.68m (2021: £7.07m), which is in possession. Although this case has experienced previous financial difficulty, this has now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream. As at 31 August 2022, a specific impairment provisions of £0.7m (2021: £2.14m) is held against this exposure. As part of the Society's strategy to dispose of loans under possession, when a commercially viable offer is received, loans of £5.43m were disposed of during the year equating to a loss of £36k after the utilisation of the existing impairment provisions held against these loans. These legacy loans were originated over a decade ago, with the loss incurred deemed reasonable given the ongoing management, maintenance and legal expenses of the properties. This same exit strategy has given rise to the increase in impairment provision during the year for the remaining portfolio.

The Society applies a prudent lending policy combined with a sympathetic and efficient arrears procedure to ensure that arrears are kept to a minimum. However, despite our prudent and responsible lending policy, individual borrower's circumstances can change which occasionally leads to difficulties in meeting their normal monthly mortgage payments. The Society reviews each case individually where borrowers are experiencing difficulties and offers forbearance measures where it is appropriate for the borrower. The aim of these forbearance measures is to reduce the risk of the borrower ultimately losing their home.

At 31 August 2022 there were 0 cases (2021: 0) where the borrowers were 12 months or more in arrears, with a balance outstanding £nil (2020: £nil). The value of mortgage accounts in arrears, past due by 3 months or more or impaired, as a percentage of the overall portfolio was 1.47% (2021: 3.92%). In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. In each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. As at 31 August 2022, there were 6 cases (2021: 9) under forbearance measures with total balances of £0.77m (2022: £3.58m) and arrears totalling £20.23k (2021: £1.92k).

The additional provision in the year was made as a result of the board taking the opportunity to re-evaluate the exit strategy of the remaining legacy loan subject to individual impairment.

### Advances in the year



# Directors' Report

Continued

The Board assesses the impact of forbearance measures regularly and considers that if there is a possibility of loss, a provision is made in accordance with the Society's policies. The main options offered by the Society include: temporary transfer to an interest only mortgage; reduced monthly payment; product review; and the extension of mortgage term. Looking forward, the Board remains committed to the traditional nature of its loan portfolio as residential property is the core market which the Society knows well, enabling prudent and practical lending decisions to continue to be made.

## Funding

As a mutual, the Society continues to be predominantly funded by retail savings, which increased to £417.06m by year end (2021: £415.21m). Savings balances from individuals accounted for 94.97% (2021: 94.27%) of our total funding, and has been driven through the Society's commitment to providing competitive rates of interest relative to high street peers to its Members, in conjunction with its well established branch network.

### Shares & Deposits



Alongside retail savings the Society maintains retail deposits with small and medium size companies of £22.10m (2021: £20.06m), and has no exposures to wholesale funding from building societies and local authorities (2021: £5.16m). Nor does the Society have any exposures to central bank term funding schemes ('TFS').

The Board remains committed to its strategic objective of supporting the Society's lending growth through retail savings. The Board is mindful of the potential challenge to both attract and retain retail deposits in a competitive interest rate environment and also with respect to the evolving macroeconomic climate in light of political and inflationary uncertainty and potential impact on customer behaviour. As part of the Society's commitment to retail savers, Members can now transact digitally or through the existing branch network.

## Net Interest Margin

Net interest margin is interest receivable less interest payable, expressed as a percentage of the simple average of the Group's total assets at the beginning and end of the financial year. As a result of increasing market competition, particularly in respect of mortgages, the Society has historically found it challenging to increase its interest margin whilst growing both its mortgage and retail savings base.

The specialised lending of the Society and disposal of residential development properties in possession are internal contributing factors to the increase in net margin during the year, coupled with the multiple material Bank of England Base Rate rises. Net interest margin growth to 1.67% (2021: 1.46%) is reflective of the Society's movement in interest rates in consideration of market changes and partial reversal of historical margin compression as a result of increases from a near zero base rate.

The Society continues to experience significant competition for mortgage business, with competition in the prime residential lending arena expected to heighten despite challenging economic forces. The Board will continue in its objective to widen net interest margin appropriately, and in line with both its asset and capital growth expectations.

## Capital

Total reserves at 31 August 2022 of £29.98m (2021: £29.45m) grew by 1.80%, sourced from retained profits for the year of £0.72m.

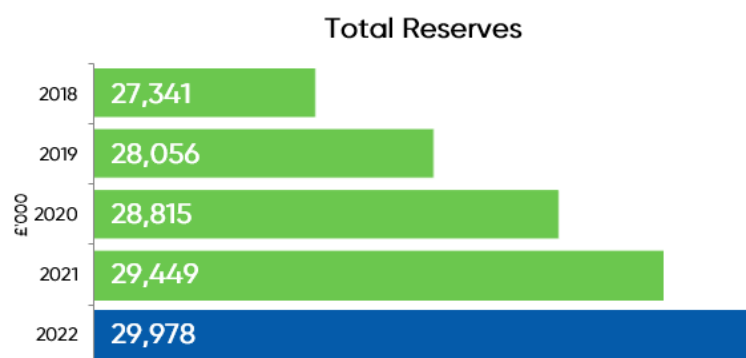
Gross capital is defined as general reserves as shown in the Group's Statement of Financial Position, and free capital as the aggregate of gross capital and general loss provisions less tangible fixed assets. The Directors ensure that a satisfactory level of capital is maintained to protect the Group against adverse market movements or changes in economic conditions. At the year end the ratio of gross capital as a percentage of total shares and deposit liabilities was 6.83% (2021: 6.69%) and free capital was 5.61% (2021: 5.68%).

The Group continues to maintain a strong capital position despite seeing a fall in the free capital ratio as a result of the differential between assets growth and capital growth, a trend anticipated to continue in the medium term. The Core Tier 1 (unaudited) ratio stood at 15.57% (2021: 17.24%) and the Leverage ratio (unaudited) stood at 5.61% (2021:



# Directors' Report

Continued



5.68%). Tier 1 Capital was £26.79m (2021: £28.84m) and Tier 2 Capital £0.10m (2021: £0.10m), providing total Capital resources of £26.89m (2021: £28.94m).

The Board complies with the Basel IV Capital Requirements Directive (CRD) which requires the Society to assess the adequacy of its capital strength through an Internal Capital Adequacy Assessment Process (ICAAP). Through the ICAAP, the Board is satisfied that the Society holds a level of capital more than sufficient to satisfy the CRD's Pillar 1 minimum capital requirements and additional identified Pillar 2 capital to mitigate

the principal risks to which the Society is exposed. The Board approves the ICAAP on an annual basis, and it is reviewed by the Prudential Regulation Authority (PRA) in setting the Society's capital requirements as Total Capital Requirement (TCR). Regulatory Capital required to be held by the year end was £19.01m, therefore actual capital held is well in excess of that required by the Regulator. Further details of the Society's approach to risk management can be found in the Society's Pillar 3 disclosures required by the CRD on the Society's website, [www.thehanley.co.uk](http://www.thehanley.co.uk).

## Liquidity

The Society held total liquidity of £122.24m (2021: £99.09m) representing 27.84% (2021: 22.50%) of shares and deposit liabilities as at the year end. Total liquidity balances include £76.00m (2021: £70.00m) deposited with the Bank of England's Reserve Account.

This investment is deemed as a high quality liquid asset and qualifies towards the Society's liquidity buffer. The growth in Bank of England Reserve in the year was as a result of the strategy of the Society to reduce lending but maintain a presence with retail savers, remaining open for business as would be expected of a mutual.

The Society undertakes an Internal Liquidity Adequacy Assessment Process (ILAAP) at least annually, which is reviewed by the Board. The ILAAP identifies all the major liquidity risks faced by the Society and assesses the quantity and quality of liquid assets it is required to hold under both normal and stressed conditions, ensuring adequate liquidity levels are maintained. Although the Society has not experienced any difficulties in obtaining funding in the challenging market conditions that have existed in recent years, we fully recognise the importance of maintaining a strong liquidity position. The Society has remained in excess of both the Board's internal assessment of minimum requirements, and the minimum regulatory requirements, throughout the year. The Society monitors both the short-term liquidity ratio, Liquidity Coverage Ratio (LCR), and long term liquidity ratio, Net Stable Funding Ratio (NSFR). The Society maintained liquidity quantity and quality well in excess of both of these regulatory limits.

## Profit

Post-tax profit for the year of £0.71m (2021: £0.66m) was transferred to reserves as, being a mutual, we aim to maintain an appropriate level of profit in order to further strengthen our capital position and support our growth in lending.

Post-tax profit ratio measures the proportion that these net earnings bear to the simple average of total assets at the beginning and end of the financial year. The Society maintained a post-tax profit ratio of 0.15% (2021: 0.14%).

The underlying long term future profitability of the Society is anticipated to remain relatively stable, despite the projected interest margin compression and increase in costs. However it is noted that the core system transition has had, and will continue to have, a material impact upon management expenses in the short to medium term. The unpredictable outlook with respect to interest rates and inflation could hinder or aid upcoming profitability.

## Management Expenses

Management expenses are the Group's administrative expenses and represent the ordinary costs of running the organisation. They comprise mainly the costs of employing and investing in staff, maintaining the branch network, ongoing advancements in IT and the increasing costs of regulation. The Board is committed to ensuring cost efficiency to sustain a level of profitability to protect Members' interests. During the year, administrative expenses increased to £6.54m (2021: £5.99m), principally as a result of the culmination of the core system migration and the associated investment in IT infrastructure.



# Directors' Report

Continued

Management Expenses as a % of Mean Total Assets



Cost pressures have also arisen due to a combination of general inflationary pressures, cost of living rises and business growth, the increased cost of regulatory compliance and continued investment in staffing across the Society to ensure excellent customer service and appropriate skill at all levels of the business.

The overall management expenses ratio measures the proportion that these expenses bear to the simple average of total assets at the beginning and end of the financial year. The management

expenses ratio is one simple measure of the efficiency with which the Group is run. The Board seeks to control this ratio while at the same time ensuring the Group has sufficient resources to operate effectively in a competitive and heavily regulated market. Overall the management expenses ratio has increased to 1.50% (2021: 1.34%) as anticipated and will be supported through planned sustainable long term growth in assets. Over the coming financial years, the Society expects further increases to its costs base in the continuation of investment in order to respond to changes in our market demographic and social behaviours.

## Other Indicators

Financial ratios are just one measure of the Group's performance. It is important to the Directors that the Society is also successful in terms of the quality of customer service and Member satisfaction. The Society's Member Forum is held on a regular basis to seek Member feedback. We recognise through the pandemic we have not run a Member Forum however, we will re-establish them in 2023.

## Risk Management Report

Risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Group's objectives. These processes allow the Society to be aware of these risks at an early stage and as far as possible mitigate them. The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

## Risk Governance and Strategy

Risks arise naturally while doing business and especially within the financial services industry. To mitigate these risks to acceptable levels, the Board has put in place a Risk Management Framework which covers all aspects of the Society's operations. The Board is responsible for all areas of the Society's business. Its role is to focus on the Society's strategy and to ensure that the necessary resources are in place to meet its objectives. The Board is likewise responsible for the design and operational effectiveness of controls within the Society.

The Risk Committee, which comprises three Non-Executive Directors, and considers all risk matters relating to the ongoing safety and soundness of the Society. Full details of the Group's governance committee structure are included in the Corporate Governance report. Through its governance structure the Board operates an open and honest culture when identifying and monitoring risks. This culture is underpinned by appropriate risk training for staff, good risk identification and escalation procedures and a robust whistleblowing mechanism. The Risk Committee has clear sight of both current and emerging risks. Underpinning this strategy is a statement of specific risks which the Board will not accept.

## Financial Risk Management

The Society has a formal structure for managing financial risk which is closely monitored and controlled by the Board, supported by the Audit & Compliance Committee and the Assets & Liabilities Committee. The Society uses financial instruments for risk management purposes, details of which are set out in Note 29.

# Directors' Report

Continued

## Risk Management Framework

The Society's risk management framework comprises five elements:

### Articulation of the Society's risk appetite by the Board of Directors

The Board sets an overarching risk appetite statement for the Society. This is supported by a series of risk appetite statements for key risks faced which, together with measurable limits, provide a framework for decision making and to identify and articulate the risks that the Board is willing to take in delivering the corporate plan of the Society. The Society operates as a prudent organisation in the level of risk it is willing to take to achieve strategic goals. This approach has been disseminated by the Board throughout the Society, thereby clearly embedding the risk culture. This culture ensures the tone from the top, set by the Board, is reflected in behaviours and decision-making. Additionally, the Board has set a boundary condition to be able to withstand a severe but plausible stress and continue to report an accounting profit and meet minimum capital requirements. The Society utilises early warning triggers through a variety of Key Performance Indicators, Board limits and regulatory limits to highlight any area of concern or potential breach of risk appetite. The Society's performance against Board limits and early warning triggers is reviewed at each Risk Committee and on a quarterly basis by the Audit & Compliance Committee.

### Board Committees overseeing the Risk Management and Internal Control Framework

The Risk Committee oversees the risk management framework (including internal controls) within the Society and to support and provide guidance to the Leadership Team, comprising the Executive Directors and Senior Managers, in the execution of their respective roles.

### Internal Governance Framework

The Society operates an internal governance framework that includes a 'three lines of defence' model, together with structured Non-Executive and Executive Committees with defined authorities, terms of reference and reporting lines as detailed in the Corporate Governance report.

### Appropriate Management Information

Management information is provided to the Board and relevant committees. This is based on reporting parameters defined between the Board and Leadership Team and it is directly related to the risk appetite and strategic objectives defined by the Board.

### Continuous Process of Risk Assessment

It is important that the Society can respond to changes in the macro-economic environment, new competition and regulatory change and that the Society's risk management framework supports a continuous approach to risk assessment and the determination of risk appetite and strategy. The 'three lines of defence model' ensures that there is an effective assessment of risks within the Society. The information provided to the Board by the Leadership Team directly and via the relevant committees continually supports the Board's consideration of the current and future risks attached to the Society's business, the nature and strength of internal controls and the strategic options.

## Three Lines of Defence

The Society has a formal structure for managing risks and operates a 'three lines of defence' model which is recognised as an industry standard for risk management.

### First Line of Defence

The Leadership Team own and manage risks as the first line of defence. They are responsible for identifying, assessing, controlling and mitigating risks by implementing corrective actions to address process and control deficiencies.

### Second Line of Defence

The Society's Risk function is the second line of defence which monitors and reports on risk and compliance to the relevant committee. It helps to ensure the Society complies with applicable laws and regulations and that policies and procedures are contemporary and operating as intended.



# Directors' Report

Continued

## Third Line of Defence

Internal Audit provide the third line of defence providing the Audit & Compliance Committee and Board with comprehensive assurance based on a level of independence and objectivity which is not available in the second line of defence. The Internal Audit function is outsourced to a third party supplier.

## Review of Risks and Internal Controls

The Risk Committee reviews and discusses management information covering prudential, operational and conduct risks. This has been enhanced to help better provide the Committee with meaningful data and analysis in support of the Society's internal controls and risk management activities.

Risk Appetite Statements are kept under regular review to help keep them measurable and relevant.

## Emerging Risks

Risk Committee agendas include a standing item, whereby the Committee looks ahead to emerging risks whether stemming from regulatory, legal, political, social or economic initiatives. In the main, this results in changes to processes and procedures but clearly there is the potential for changes to arise which would have greater impact upon the Society's strategy. This year, the Risk Committee considered a number of new and emerging risks which have the potential to impact Members, the Society and colleagues, including climate change, cost of living and interest rate increases.

## Principal Risks and Uncertainties

Building societies operate within a highly competitive financial services market, consequently many of the risks arise simply from competing within such an environment. The Society, like all businesses, faces several risks and uncertainties and seeks to actively manage these risks. The Society has an overall cautious approach to risk, which helps to maintain Member confidence particularly in difficult market conditions. The identification and management of risk is a high priority and is integral to strategy and operations. The principal risks inherent in the Society's business are detailed below.

## Credit Risk

Credit risk is the risk of a customer or counterparty not meeting their financial obligations to the Society as they fall due. This risk is most likely to arise in the potential inability of a customer to make repayments on their mortgage, and of treasury counterparties to repay loan commitments. The risk of treasury counterparty default is managed through Board approved Liquidity, Funding and Structural Risk policies. Counterparty credit quality and exposure limits are monitored by the Assets & Liabilities Committee who make recommendations to the Board on changes any of its related policies.

Mortgage credit risk is managed through the Society's underwriting process which seeks to ensure that customers can afford to repay their debt. All mortgage applications are rigorously assessed with reference to the Society's Lending Policy. Changes to policy are approved by the Board following reviews by Credit Committee, and challenge by the Risk Committee. All applications are supported by an independent valuation sourced from the Society's authorised panel of valuers. In the unfortunate event of customers experiencing financial difficulties the Society is highly proactive in providing support, which is outlined in the Board approved Arrears, Forbearance and Possession Policy. This can include working with borrowers to clear arrears, making arrangements, or forbearance including payments holidays. In respect of properties under possession, the Society may take a longer-term approach to the management of these loans. This enables the Society to take advantage of any positive cyclical movements in underlying property values. The Society may however, agree to sell before the disposal term end date with approval from the Board.

Determining the appropriateness of impairment losses for such long term approaches is judgemental and requires the Society to make a number of assumptions.

The preparation of the Society's financial statements in accordance with FRS102 (previously UK GAAP) requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported value of such assets. Due to the inherent uncertainty in making estimates, actual results reported in future periods may differ from current estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This is further explained in Note 1 to the accounts.

# Directors' Report

Continued

## Liquidity Risk

Liquidity risk is the risk that the Society is not able to meet its financial obligations as they fall due. The Society's Liquidity Policy is to maintain adequate liquid resources, both in amount and quality, to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. Liquidity risk is controlled in accordance with the Board's approved Liquidity Policy, which details the approved Liquidity Risk limits set by the Board, which are reviewed daily by the finance team and monitored monthly by the Assets & Liabilities Committee. Periodic stress testing is performed to ensure obligations can be met in both normal and stressed circumstances. Compliance with Risk Appetite is monitored by the Assets & Liabilities Committee.

## Interest Rate Risk

Interest rate risk represents the Society's exposure to movements in interest rates, specifically the risk of movements of underlying market rates in variable rate products in relation to those with a fixed rate. Interest rate risk is managed through the utilisation of derivative financial instruments, where appropriate, and in accordance with the Board approved Structural Financial Risk Management Policy. Interest rate risk is monitored by Assets & Liabilities Committee monthly. The interest rate sensitivity exposure of the Group is set out in Note 29 to the Annual Accounts. The Society has no direct exposure to foreign currency exchange rates.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Society mitigates this risk through having a robust and effective internal control framework, including internal audit and the Society's compliance function, which are overseen by the Risk Committee and the Audit & Compliance Committee.

## Regulatory and Legal Risk

Regulatory risk represents a failure of the Society to meet its fundamental obligations under the regulatory and statutory system, including those of the PRA, FCA, Bank of England, HMRC, Information Commissioner's Office and the Health & Safety Directorate. The Board monitors these risks and their potential increase through the Risk Committee and the Audit & Compliance Committee. Considering the increasing regulatory demands faced by the sector, the Board is alert to the potential increase posed by regulatory risk.

## Conduct Risk

The Board defines conduct risk as risk arising from our conduct in our direct relationship with retail customers, or where firms we work with have a direct duty to retail customers. That is the risk of failing to treat our customers fairly which results in detriment to those customers. The Board acknowledges the requirement to fully embrace the Financial Conduct Authority's Principle 6, namely, to ensure that the Society pays due regard to the interests of its customers and to treat them fairly at all times. These principles are firmly embedded within the Society's culture and working practices. The Society recognises that failure to manage conduct risk can lead to unfair treatment of Members or mishandling of Members' accounts and may adversely affect its business operations, threaten its objectives and strategies and the objectives of the Regulator. A structured approach to the consideration of conduct risk management enables the Leadership Team and the Board to make fully informed conduct decisions without exposing the Society or its Members to unacceptable levels of risk. The objective of the Society declaring and implementing a Conduct Risk Policy and strategy is to ensure that appropriate actions will be taken by the Leadership Team to identify, and manage effectively, the conduct risks to which the Society and its Members may be exposed. The Society is following developments regarding the FCA Consumer Duty requirements. A gap analysis is to be conducted and reported to the Audit and Compliance Committee ('ACC'), with proposed changes to be implemented through 2023 and 2024.

## Technology Risk

This is the risk of hardware and software failure, resulting from human error, processes, software or supplier changes, spam, viruses and malicious cyber-attacks as well as natural disasters. It threatens assets and processes vital to the Society. It may also prevent compliance with regulations, impact profitability and damage the Society's reputation in the marketplace. Regulatory fines and legal proceedings from Members and/or third parties are also possible.

The Society has an Technology Policy which is reviewed by the Leadership Operational Committee with the Audit and Compliance Committee providing challenge on behalf of the Board.



# Directors' Report

Continued

## Financial Crime Risk

This is described as a risk of knowingly or unknowingly allowing parties to commit or to further any illegal or criminal activity related to money, financial services or markets, including: fraud (internal and external), handling the proceeds of crime, the financing of terrorism and acts of bribery or corruption.

The Society has a Financial Crime Policy, a Board Risk Appetite and regular reporting in place which provides clarity and visibility on the effectiveness of the controls in place. In addition, on annual basis, the Money Laundering Reporting Officer provides a report to the ACC on the effectiveness of the framework in place.

## IT and Information Security

The Society continues to invest in its technology infrastructure so that it can provide improved services that meet the evolving needs and expectations of Members in the financial services markets in which it operates. The core system project continues with the Savings, Mortgage and Online Banking platforms now live. The new system enables the Society to offer a more functional Online Banking portal. The new Mobile App is now live.

The Society is fully aware of external threats targeting the banking sector, in particular cybercrime attacks designed to deny access to systems and compromise, or misuse, the data and assets held on Society systems. The Society has invested in improved detective and preventative cyber security measures to ensure that cyber controls evolve in line with the ever-changing complexity and unpredictability of cybercrime, to further protect Society and Members' assets.

## Climate Change

The Society recognises the increasing risks of climate change, both on the world as a whole and the arena in which the Society operates. The PRA published regulatory guidance in 2019 "Enhancing banks' and insurers' approaches to managing the financial risks from climate change". The Society has conducted a gap analysis against the requirements and has taken steps to be able to identify, monitor and report against climate change metrics.

The mortgage book has been screened by a third-party supplier to determine ways in which the Society can support borrowers to improve the efficiency of their homes. The Society will report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations when required.

## Governance

The Society has a climate change action plan to consider the impact of climate change on the mortgage book, to ensure the suppliers we use are considerate of their impact on climate change and to reduce our own emissions.

## Strategy

In 2022-23 the Society has plans to assess the mortgage book against physical and transitional climate change risks. This in turn will allow for benchmark setting and planning.

The management of this risk, which presents itself predominately as a credit risk, is continually evolving, in line with shifts in regulation, consumer "buy in" and advancements in technology with specific respect to environmental protection. The product offering, for both mortgage and savings, is constantly under review and consideration is being given to the launch of an environmental saver account and green lending initiatives within the 2023-2025 roadmap.

The Society is engaging internally and externally to identify and benchmark its own business carbon footprint and to establish future plans to reduce it and consider potential carbon offsetting.

## Metrics and Targets

The Society has defined a risk appetite for the proportion of properties located within medium and high flood risk areas. The Board and Risk Committee receive quarterly reporting on the proportion of properties within medium and high flood risk areas. The spread of Energy Performance Certificate (EPC) ratings is currently being considered and a risk appetite will be defined and reported against.

# Directors' Report

Continued

## Charitable and Political Donations

The Society's Charity Saver account and the historic Douglas Macmillan Account had balances totalling £11.82m at the Statement of Financial Position date. Donations of £46k (2021: £48k) were made to the Society's partner charities with the majority of money raised through retail accounts and Annual General Meeting (AGM) voting donations.

In the coming year the Society will continue its support to all its announced charity partnerships, with the aim of solidifying relationships within the wider community and together tackling the challenges they face. In addition, the Society sponsors, and its staff commit their time to a range of local charitable and community causes.

No contributions were made for political purposes.

## Executives and Staff

The Society maintains an open recruitment and staff development policy, affording equal opportunities regardless of age, gender, race, religion or disability. Staff communication and training continue to remain priorities for the Society. The Board wish to record their thanks to the staff for their commitment, support, co-operation and flexibility, particularly during yet another challenging year, which is so essential to the ongoing success of the Society and for the benefit of the communities in which we operate.

## Acknowledgements

We would like to thank our Members for their continued loyalty and acknowledge that the Society's success could not be achieved without their support.

## Directors

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

Mr A. S. Macdonald and Mrs L. Payne both retire by rotation in accordance with the Society's rule 26(1) and being

Non-Executive Directors		
N. M. Jordan (Chair)	R. I. Henley	S. Shardlow (from 01/09/2022)
G. M. Davidson (from 27/07/2022)	A. S. Macdonald	R. M. Young

Executive Directors	
L. Payne ACMA, CGMA (Finance Director)	M. E. Selby BA, MBA (Chief Executive)

eligible offer themselves for re-election. Mrs G. M. Davidson and Mrs S. Shardlow offer themselves for election.

## Business Review

The Directors are pleased that the Society can report another successful year. A review of the Society's business performance over the last 12 months together with the future outlook is included in the Directors Report on pages 6 to 16 which should be read in conjunction with this report.

## Going Concern

The Directors have developed a five year view of the business and a three year forecast of the Group's financial position for the period ending 31 August 2025. In doing so they have also considered the effects on the Society's business of operating under stressed but plausible operating conditions, with specific reference to changing economic conditions and other known sensitivities. As a result they are satisfied that the Society and the Group have adequate resources to continue in business for the foreseeable future, specifically for a period of at least 12 months from when the annual accounts are authorised for issue. For this reason, the accounts continue to be prepared on a going concern basis. Further information is available in note 1 and note 30.

## Post Statement of Financial Position Events

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

## Auditors



# Directors' Report

Continued

At the Annual General Meeting held on 14 December 2021, a resolution to appoint Mazars LLP as External Auditor to the Society was passed.

## Disclosure of Information to Auditors

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

## Directors Indemnity

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

On behalf of the Board:

N. M. Jordan

Chair

27 October 2022





# Directors' Profiles

## Non-Executive Directors

### Nick Jordan



Nick was appointed to the Board as Chair in May 2018. Nick is an Oxford graduate and has over 40 years' experience in the financial services sector in a wide variety of leadership positions both executive and non-executive, including as a Chief Risk Officer and Chief Credit Officer at a major domestic UK bank.

He holds a small number of other non-executive Board directorships. Nick is married with two grown up children.

### Gill Davidson



Gill joined the Board in July 2022 as a Non-Executive Director and is a member of the Risk Committee.

Starting her career in legal private practice in the Midlands, she subsequently spent over 20 years in the financial services industry, including working with building societies. Her most recent role was as the Chief Risk Officer for the Quilter PLC advice businesses and she has subsequently been appointed to Non-Executive and advisory roles.

Gill is a law graduate of the University of Birmingham, is married and has two grown up children. She holds several volunteer roles, including supporting her local foodbank, acting as governor of a specialist further education college and providing business mentoring. In addition, she enjoys exploring the countryside as a keen walker and cyclist (with the benefit of an e-bike model)!

### Ian Henley



Ian joined the Board in January 2020 as a Non-Executive Director and formally took up his role as Chair of the Risk Committee in April 2020. He has spent 40 years in the financial services industry, leading client-facing teams in the UK, Europe and the US.

He has considerable experience serving on and chairing credit and risk committees and, in his most recent executive experience, was Global Head of Lending and Transaction Management in the Commercial Banking business of HSBC.

Ian is a graduate of Cambridge University in Modern Languages, is married with three children and spends his spare time golfing, skiing, walking and gardening.

### Andrew Macdonald



Andrew was appointed as a Non-Executive Director in September 2014. Andrew is Chair of the Audit & Compliance Committee and a member of the Assets & Liabilities Committee.

He began his career in branch banking with Barclays in the late 1970's and became a specialist in Treasury and Asset & Liability Risk Management. He later worked for Halifax, Sipton and Nationwide building societies, again in Treasury and Asset & Liability management roles, and was as a consequence made a Fellow of the Association of Corporate Treasurers in recognition of his work in this important area.

### Susan Shardlow



Susan has over 30 years' experience working in a variety of construction related businesses under a range of ownerships. She is a qualified accountant, working in her most recent roles as CFO, but with previous experience as a NED/Chair of Audit for a local housing association. Susan has a broad commercial background covering all areas of finance, strategic planning and governance, but also leading significant system and organisational change projects.

Susan has lived in Stoke-on-Trent for most of her life, is married with one grown up daughter and one grandson. She enjoys golf and watching motorsport, when time allows.

# Directors' Profiles

Continued

## Bob Young



Bob was co-opted to the Board in May 2017 and his appointment was confirmed by Members at the AGM in December 2017. Bob is a member of both the Assets and Liabilities Committee and the Audit and Compliance Committee. In July 2022 Bob was appointed as the Chair of the Remuneration Committee.

Bob spent his career as an Insolvency and Turnaround Practitioner, for the last 20 years in Stoke-on-Trent, initially as the local Director of PwC and later as Senior Partner of the Stoke office of Begbies Traynor. Bob then became a founder member of Currie Young Ltd from which he has now retired. Bob is also a former President of North Staffordshire Chambers of Commerce. Bob lives in Caverswall and is married with 4 children and 6 grandchildren.

## Executive Directors

## Mark Selby



Mark Selby joined the Society as CEO in November 2016 having previously been COO at Abbey National/Santander and Virgin Money.

Before entering banking, Mark had a career in Food retailing working for Sainsbury's and Greggs. Mark has a Masters degree in Business from Cranfield University and a first degree from University of East Anglia. Mark is married with two sons.

## Larne Payne



After initially working within the NHS, Larne joined the Society in 2012 as Financial Controller, qualifying as a Chartered Management Accountant the following year. Over this period she has developed a wide range of financial services experience including Balance Sheet Management, Financial Control and Regulatory Reporting.

Larne, who lives locally, joined the Board as Finance Director in 2019. She is Chair of both the Assets and Liabilities Committee and Product Development Committee, as well as an attendee of the Risk and Audit Committees.



# Directors' Remuneration Report



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

The Remuneration Committee is responsible for advising on the remuneration policy for all Executive Directors of the Society, Senior Managers and the Chair of the Society.

It makes recommendations to the Board regarding remuneration and contractual arrangements. In reviewing remuneration, the Committee has regard to both the supervisory statement issued by the Prudential Regulation Authority and the Financial Conduct Authority relating to remuneration and the UK Corporate Governance Code.

The Committee meets at least twice a year. In making its decisions it considers comparative remuneration packages and reviews supporting evidence, including taking external professional advice where appropriate.

## Policy for Executive Directors and Leadership Team Members

The Board's policy is to advise on remuneration levels which will attract and retain high calibre Executive Directors and Leadership Team members, and to encourage excellent performance through rewards directly linked to the achievement of the Society's strategic objectives, financial and non-financial. The main components of remuneration are:

a) Basic Salary – which considers the role and position of individuals including professional experience, responsibilities, job complexity and market conditions. Basic salary is reviewed annually. All staff within the Society are paid above the national living wage.

b) Pensions – which involves the Society contributing to the personal pension arrangements of its Executive Directors. The Society does not have a Defined Benefit/Final Salary pension scheme.

c) Incentive Schemes – which take into account performance of the Society over a range of areas reflecting the mutual status of the Society and importantly, not purely its financial performance. Further, benefits under this scheme are paid over a period of years and are subject to non-payment if performance deteriorates. All proposed payments are reviewed by the Remuneration Committee before they are made.

d) Other Benefits – include the provision of a car allowance to each Executive Director and Leadership Team member, private medical insurance, income protection and a concessionary mortgage rate on loans up to £500,000.

All benefits are reviewed annually by the Remuneration Committee paying particular regard to the type of behaviours they may promote.

Executive Directors have contractual notice periods of up to 6 months and so any termination payment would not exceed 6 months' salary and accrued benefits.

The individual performances of the Executive Board members are reviewed on an annual basis by the Remuneration Committee.

## Policy for Non-Executive Directors

The remuneration of all Non-Executive Directors is reviewed on an annual basis using external benchmarking data for other comparable building societies, and by a performance review process undertaken by the Society's Chair. The level of remuneration for non-executive Board members is set by the Chair and the Chief Executive.

The Chair's performance review is conducted by the Senior Independent Director and his remuneration is reviewed and set by the Remuneration Committee.

There are no bonus or incentive schemes for Non-Executive Directors and they do not qualify for pension entitlement or other benefits. Non-Executive Directors do receive as part of their remuneration a travel allowance for travel to meetings at head office and may claim expenses in accordance with the Society's prevailing expenses policy.

# Directors' Remuneration Report

Continued

Emoluments of the Society's Directors are listed below.

Director's Remuneration	Group and Society	
	2022	2021
	£'000	£'000
Directors' emoluments:		
For services as a Non-Executive Director	170	183
For executive services	515	458
	<b>685</b>	<b>641</b>

Emoluments of the Society's Directors	Fees 2022	Fees 2021
	£'000	£'000
Non-Executive Directors:		
N. M. Jordan	45	44
G. Davidson (from 27/07/2022)	3	-
R. I. Henley	29	28
A. S. Macdonald	32	31
E. Whitfield (to 30/04/2022)	17	26
S. Woodings (to 31/03/2022)	16	27
R. M. Young	28	27
	<b>170</b>	<b>183</b>

	Salary	Benefits	Sub-total	Pension Contribution	Total
	£'000	£'000	£'000	£'000	£'000
Executive Directors:					
2022					
M. Selby	250	72	322	31	353
L. Payne	115	33	148	14	162
	365	105	470	45	515
	£'000	£'000	£'000	£'000	£'000
2021					
M. Selby	230	58	288	29	317
L. Payne	103	25	128	13	141
	<b>333</b>	<b>83</b>	<b>416</b>	<b>42</b>	<b>458</b>

R. M. Young  
Chair of Remuneration Committee  
27 October 2022

# Corporate Governance

The Society is committed to best practice in Corporate Governance. Our approach is based on the principles and provisions of the UK Corporate Governance Code 2018 (the Code) published by the Financial Reporting Council (FRC) which applies to listed companies. Whilst the Society is not a listed company the Board has regard to the recommendations of the Code and follows those elements that are considered to be appropriate and proportionate to the Society. This report sets out how the Group operates and conducts its business in a prudent and efficient manner, thereby maintaining high standards of governance for the benefit of its Members, both current and future.

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

## The Board roles and Responsibilities

The Society's Rules require that the Board should comprise between five and nine Directors. The Board currently comprises a Chair, five Non-Executive Directors and two Executive Directors.

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

The role of Non-Executive directors is to bring independent judgement and perspective to the Board debates and decisions, as well as constructively challenging the work and proposal of the Executive Directors and the Leadership Team at the management level. In doing so, non-executive directors apply the highest standards of conduct, integrity and probity. As members of the Board and committees, they assist in the discharge of the duties and obligations in line with terms of reference.

All Directors have access to independent professional advice, if required, and also access to the services of the Society Secretary.

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

Certain responsibilities are delegated to a number of Board Committees, each one having clear and detailed Terms of Reference. Powers are delegated from the Board through documented delegated authorities and set of responsibilities, decision making and approval powers of the Executive Directors, leadership and management team.

Matters reserved for the Board which the Board is collectively responsible for:

- Setting the Society's Strategy, policy, internal limits, risk appetite and risk management framework;
- Safeguarding Members' interests;
- Monitoring progress of the Society's strategy and business performance;
- Robust risk management systems and risk,
- Ensuring that robust financial and internal controls are in place;
- Ensuring that the Society operates within its rules, the rules and guidance issued by the PRA and the FCA;
- Leading, developing and overseeing the Society's culture.

In discharging its responsibility the Board approves:

- Development and changes to the strategy;
- Corporate Plan and budget;



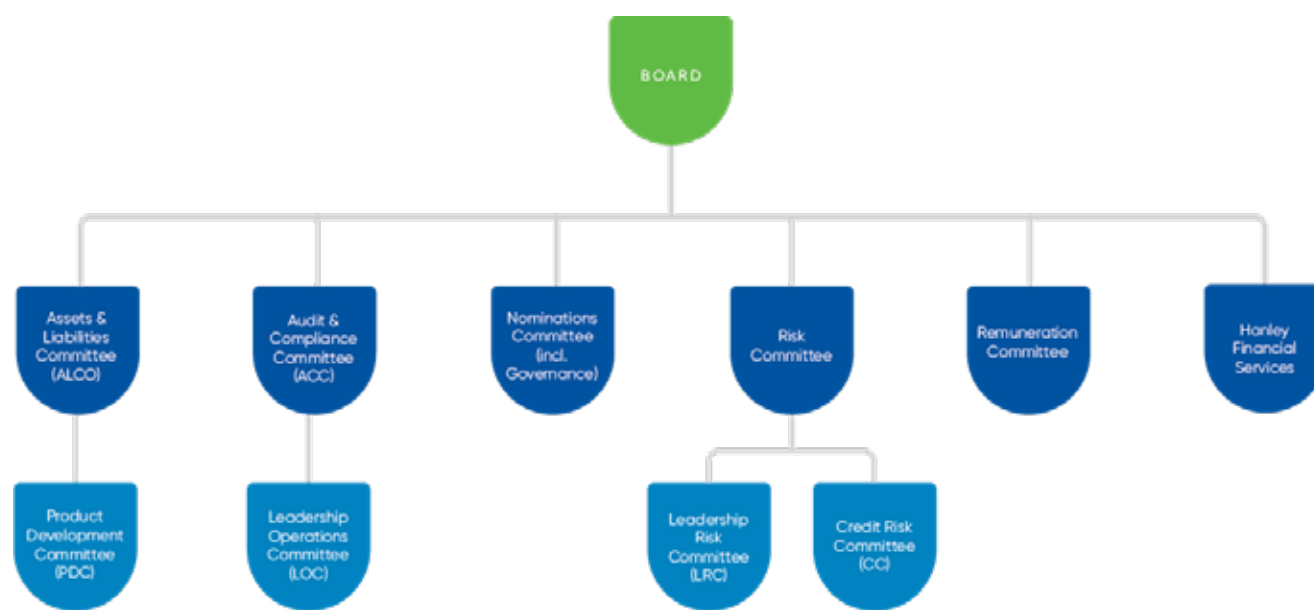
# Corporate Governance

Continued

- Review of the effectiveness of the systems and controls; and
- Liquidity and Capital requirements.

## Board Committees

The Board has 1 subsidiary, 5 main sub-committees and 4 management committees as follows:



The Credit Risk Committee and Leadership Risk Committee are management committees reporting to the Risk Committee.

The Product Development Committee is a management committee reporting to the Assets & Liabilities Committee.

1. The Assets & Liabilities Committee convenes monthly and monitors and controls balance sheet risk, interest rate risk in banking book (IRRBB), funding and liquidity in accordance with the Society's policy. For the year to 31 August 2022 the Committee comprised 2 Non-Executive Directors and 2 Executive Directors.

2. The Audit & Compliance Committee meets quarterly and reviews the adequacy and effectiveness of the Society's internal controls, including compliance with the requirements of both the Prudential Regulation Authority and the Financial Conduct Authority. It considers and recommends the appointment of the internal and external auditors and monitors their effectiveness and independence (please refer to the Audit & Compliance report on page 26 for further information). For the year to 31 August 2022 the Committee comprised 3 Non-Executive Directors.

3. The Remuneration Committee meets at least half yearly and independently reviews and recommends changes to the terms and conditions of employment of the Directors and Senior Managers ('Leadership Team'). 4 Non-Executive Directors of the Society are members of the Remuneration Committee and members of the Executive team attend by invitation. (Please refer to the Directors' Remuneration Report on page 19 for further information).

4. The Risk Committee meets quarterly. 3 Non-Executive Directors of the Society are members of the Risk Committee and members of the Executive team attend by invitation. Risk Committee ensures that risks are appropriately managed in accordance with policy and within the limits of the Board's stated risk appetite and provides assurance that the Society is adhering to regulatory risk requirements by monitoring actions taken to resolve any risk control weaknesses or failings to the Society's strategy, operations and performance.

5. The Nominations (Inc. Governance) Committee meets as required to consider Board appointments and to ensure that it comprises sufficient Directors who are fit and proper, independent and who can meet the collective and individual responsibilities of Board members. All Directors of the Society are members of the Nominations Committee. The Committee reviews the independence of Non-Executive Directors and ensures that the Board

# Corporate Governance

Continued

remains 'fit for purpose' in terms of skills, knowledge, expertise and experience required at any given time.

Before any appointment is made by the Board, the Nominations Committee evaluates the balance of skills, knowledge, experience, gender and diversity on the Board, and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the committee considers candidates from all ethnicities and backgrounds to create an inclusive workplace.

Attendance at Board and Committee meetings for the year to 31 August 2022 has been recorded as follows :

Board attendance	Board	Assets & Liabilities	Audit & Compliance	Nominations	Remuneration	Risk
Non-Executive Directors:						
N. M. Jordan (Chair)	10 (10)	0 (0)	0 (0)	3 (3)	2 (2)	5 (5)
R. I. Henley	10 (10)	5 (9)*	0 (0)	3 (3)	2 (2)	5 (5)
A. S. Macdonald	9 (10)	8 (9)	4 (4)	2 (3)	0 (0)	0 (0)
E. Whitfield	7 (7)	0 (0)	3 (3)	2 (2)	1 (1)	0 (0)
S. Woodings	5 (7)	0 (0)	0 (0)	2 (2)	1 (1)	3 (3)
R. M. Young	9 (10)	8 (9)	4 (4)	2 (3)	1 (1)	0 (0)
G. M. Davidson	1 (1)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Executive Directors:						
L. Payne	10 (10)	9 (9)	2 (0)*	0 (0)	0 (0)	3 (0)*
M. E. Selby	10 (10)	8 (9)	4 (0)*	0 (0)	1 (0)*	5 (0)*

() = number of meetings eligible to attend

\* = attended by invitation

S. Woodings left the Board on 31 March 2022

E. Whitfield left the Board on 30 April 2022.

G. M. Davidson joined the Board on 27 July 2022.

## Board and Committee Effectiveness

### Conflict of Interest and Directors Independence

The Board is satisfied that its current and intended composition is appropriate for the proper direction of the Society's business activities. The Board considers that all its Non-Executive Directors are independent and carry out their duties with complete objectivity. Furthermore, if any Non-Executive Director meets the following criteria, further information is obtained to ensure independence:

- If they have been an employee of the Group in the last 5 years,
- If they have or had a material business relationship with the Society in the last 3 years,
- If they receive or received additional remuneration from the Society (apart from the director's fee), are a member of the pension scheme or receive performance related pay (PRP).
- If they have family ties with any of the company's advisors, Directors or Senior Managers.
- If they hold cross-directorship or has significant links with other Directors. and
- If they have served on the Board for more than 9 years.

The Board considers that neither the Chair, nor any director, had a material conflict of interest to declare, which would impact the effective discharge of their responsibilities, during the year ended 31 August 2022. The Board considers that all individual directors, have sufficient time to discharge their duties at the Society and they do not

# Corporate Governance

Continued

hold more than the prescribed number of directorships under Article 91 of the Capital Requirements Directive IV.

## Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new Directors, using professional external search and recruitment consultants when appropriate.

The Nominations Committee makes appointments having considered the balance of skills, experience, availability and core competencies required, having regard for the benefits of diversity so as to offer a depth and breadth of insight, perspective and experience on the Board. New Directors receive formal introduction training and all Directors are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry and the regulatory framework within which the Society operates. All Directors must meet the test of fitness and propriety as laid down by the Regulators as 'Approved Persons' to fulfil their Senior Manager Function as Directors. The Board acknowledges that best practice in UK Corporate Governance 2018 is continuously evolving and alignment to emerging standards should be expected for the Society.

## Assessment of Directors

Performance and evaluation reviews are carried out for each Director on an annual basis by the Chair with the Senior Independent Director carrying out a 360 degree review of the Chair to ensure the Society complies with Principle A of the Code. This ensures we retain an effective and entrepreneurial Board who promote the long-term sustainable success of the Society, generating value for Members and contributing to our community. In addition, there is also an annual evaluation of the Board as a whole and a Board Skills Matrix is prepared to assess areas of strengths and weaknesses.

## Board Changes and Elections/Re-elections

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

## Board and Senior Managers Diversity

All Board appointments are based on merit against objective criteria, the skill and experience of the Board as a whole, with regards to the benefit of diversity. In 2022 the Nominations Committee considered the Society's approach and measures to diversity including gender, age and ethnicity representation.

## Communications and Member Engagement

The Board encourages communications with its Members through half-yearly customer forum meetings where the Executive Directors speak informally on the main business developments and Members present can raise any questions. However, during COVID-19 this was not possible.

The Society holds its Annual General Meeting (AGM) in December and details of the AGM are sent to all eligible voting Members who are encouraged to attend and to use their vote or appoint a proxy to vote if they choose not to, or are unable to, attend the meeting. Voting results are published on the Society's website.

For the year to 31 August 2022 Andrew Macdonald was the Senior Independent Director available to Members to address any concerns or issues they may wish to raise. However, all Directors are happy to make themselves available to Members for such purposes.

## Culture

The Chair promotes a culture of openness and debate and sets the direction of the Board, facilitating and encouraging effective contribution and challenge from Directors, and maintaining constructive relations between Non-Executive and Executive Directors. Evidence is contained within Board and Board Committee minutes which are approved by all Committee members.

The Board continues to monitor culture using a range of strategic risk assessment measures. The Society's values help to promote our mutual culture, encouraging behaviours that are in the best interests of our Members. All members of staff receive regular information and examples of our values and how these should be central to the work and attitudes. To support this further, the staff annual appraisal process requires all to demonstrate the Society values and behaviours. The 2022 colleague survey demonstrated high colleague engagement, which helps to maintain a mutual culture and encourages appropriate behaviours throughout the business. The colleague



# Corporate Governance

Continued

survey also helped to provide 'culture temperature checks' for the Board during the COVID-19 lock down and for the transition back to working in the Head Office. The same approach regarding the colleague survey continues into 2023.

To measure staff performance and behaviours, there is a robust performance management approach in place. All have a personal objective plan which links personal objectives to corporate objectives, supported by a personal development plan.

## Workforce Reward and Investment

The Society is committed to investing and rewarding its workforce. Annual salary benchmarking is conducted for all roles. We offer all staff the following benefits:

- Society pension scheme;
- Generous holiday allowance based on length of service;
- Private health care for all staff plus Medicash healthcare plan;
- Performance related pay awards;
- Cycle to Work Scheme;
- Staff mortgage product;
- Regular Saver staff product;
- Building Stars – Reward and recognition platform; and
- Annual Training and development plan linked to individual needs and Society strategy.

## Whistleblowing

The Society recognises that staff are usually the first to become aware of conduct or activities taking place within an organisation which constitutes misconduct or malpractice. The Society operates a Whistleblowing Policy approved by the Board on an annual basis. All staff members and stakeholders are encouraged to raise a concern without fear of retribution, victimisation or detriment to job prospects. Regular training is provided to all staff including how to raise concerns, both internally and externally and directly with regulators.

Under the Senior Manager's Regime, Andrew Macdonald as a Senior Independent Director and the Chair of the Audit and Compliance Committee has been appointed as the Whistleblowing Champion. He oversees the Society's whistleblowing policies and procedures. Externally led training is provided to the Chair of ACC, Head of Risk and Head of HR to ensure controls and processes are up to date and in line with expectations.



# Audit & Compliance Committee Report



The Audit & Compliance Committee is an essential part of the Society's governance framework to which the Board has delegated oversight of financial reporting, internal controls, internal audit and external audit. All of the current members of the Committee are independent Non-Executive Directors with extensive experiences of the financial services sector. The Chair of the Committee is a specialist in Treasury and Assets & Liabilities Risk Management. This report provides an overview of the Committee's work and details of how it has discharged its responsibilities during the year.

The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the financial statements, any formal announcements relating to financial performance and significant financial reporting judgements contained therein;
- The effectiveness of the system of internal control processes;
- The internal audit and external audit processes;
- The appointment, re-appointment and removal of the external auditors and the periodic review of their performance and independence; and
- The policy on the use of external auditors for non-audit work.

Following each Committee meeting, the minutes of the meeting are distributed to the Board, and the Committee Chair provides an update to the Board on key matters discussed by the Committee.

The Chief Executive, Finance Director and the Head of Risk attend the meeting by invitation. Representatives of PwC (internal auditor), Mazars (external auditor), are also invited to each meeting. Each meeting commences with the Committee having a discussion with the external and internal auditor without management being present.

## Key Areas Reviewed During 2022

The Committee met 4 times during the year and focused on the following matters:

### Financial Reporting

The primary role of the Committee in relation to financial reporting is to review and assess with management and the external auditor the integrity and appropriateness of the annual financial statements concentrating on amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Society's performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2022 accounts were:

- Loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with IAS 39, specifically HPI forecasts, disposal terms and anticipated rental income and fees;
- Interest income recognition: Review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of applicable fees and commission recognition, and behavioural life under effective interest rate methodologies; and
- Hedge accounting: Review of systems and processes used to calculate effectiveness of hedges and impact on the Income Statement and Statement of Financial Position under IAS 39, including appropriate yield curves and

# Audit & Compliance Committee Report

Continued

matching rules.

The impact on credit risk and subsequent capital resilience of the Society as a result of the COVID-19 pandemic was also considered.

The Committee considered whether the 2022 Annual Report and Accounts were fair, balanced and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. The Audit & Compliance Committee fully discharged its responsibilities in relation to financial reporting of the Annual Report and Accounts 2022.

## Internal Audit

The Committee is responsible for monitoring internal audit activities and effectiveness and ensuring that sufficient resources are in place.

To provide the scalability and flexibility of specialist resources required within internal audit, the Society continues to outsource this role to PwC.

Key reviews were completed through their agreed work programme during the year including areas of internal control significance, (e.g., Compliance Effectiveness, ILAAP, Cyber Security Review, Third Party Supplier Management, Operational Resilience, IT Key Controls and Cloud and Mortgage Lending).

Internal audit findings and thematic issues identified were considered by the Committee, as well as management's response and the tracking and completion of outstanding actions.

The Committee considers the guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the internal auditors and the Committee were fulfilling their obligations in a robust manner.

The Committee also approved the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail.

PwC operate in accordance with an Internal Audit Charter. This Charter may be found on the Society's website.

The Committee is satisfied PwC satisfy the required skills and resource to fulfil the role.

## System of Internal Controls

The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of Members' and Society assets. Internal control also facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

The Society operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal control framework has been designed to ensure thorough and regular evaluation of the nature and extent of risk and the Society's ability to react accordingly. It is the role of management to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

The internal audit function provided independent assurance to the Board on the effectiveness of the internal control framework through the Audit & Compliance Committee.

The Committee reviewed the internal controls regime through regular reporting from management, the Society's internal auditor and the external auditor. The main internal control matters which were reviewed by the Committee in the financial year were:

# Audit & Compliance Committee Report

Continued

- Conduct related issues;
- Prudential related issues;
- Internal audit plans;
- The status of issues raised in control reports which were tracked closely. During the year, the volume and age profile of issues raised remained within appropriate parameters; and
- Whistleblowing arrangements. The Committee reviews the use of the confidential reporting channels in the Society each year. Awareness of 'whistleblowing' arrangements is maintained in several ways including internal communications and training modules.

The information received and considered by the Committee provided reasonable assurance that during the financial year, there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

The Committee considers the reappointment of the internal auditor, including rotation of the audit partner, each year and also assesses their independence on an ongoing basis. The internal auditor is required to rotate the Senior Statutory Auditor responsible for the Society's audit at least every five years.

## External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle the Committee receives from Mazars LLP a detailed audit plan, identifying their assessment of the key risks.

The Committee holds regular private meetings with the external auditor. This provides the opportunity for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the auditor's assessment of financial reporting risks and management's activity in relation to these risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management and the independence of their audit.

The Committee approved the fees for audit services for 2022 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required.

## Audit & Compliance Committee Effectiveness

The Committee conducted a self-assessment review to monitor its effectiveness which concluded that the Committee had operated effectively and in accordance with its Terms of Reference. The Committee's Terms of Reference were reviewed during the year and found to be fit for purpose.

Furthermore, the Committee concluded that the long-term economic impact of COVID-19 remains a relative unknown. The Society is now operating in a post COVID-19 environment, albeit recognising it could return.

Andrew Macdonald

Chair of Audit and Compliance Committee

27 October 2022

# Directors' Responsibilities



The Directors are responsible for preparing the Annual Report, Annual Business Statement, 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 Group and Society annual accounts for each financial year. Under that law they have elected to prepare the Group and Society annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Group and Society annual accounts are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society annual accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- Assess the Group and 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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

## Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Group:

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

The Directors are 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 Group and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

N. M. Jordan

Chair

27 October 2022



# Independent Auditor's Report to the Members

## Opinion

We have audited the Annual Accounts of Hanley Economic Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 August 2022 which comprise the Group and Society Income Statement and Statement of Comprehensive Income, the Group and Society Statement of Financial Position, the Group and Society Statement of Changes in Members' Interests, the Group and Society Statement of Cash Flow and related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Annual Accounts:

give a true and fair view of the state of the Group's and the Society's affairs as at 31 August 2022 and of their income and expenditure for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

have been prepared in accordance with the requirements of the Building Society Act 1986 and the 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 under those standards are further described in the Auditor's responsibilities for the audit of the Annual Accounts section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the Annual Accounts in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions Relating to Going Concern

In auditing the Annual Accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Annual Accounts are appropriate.

Our audit procedures to evaluate the directors' assessment of the Group and the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Society's ability to continue as a going concern;

Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and the Society's future financial performance;

Evaluating the Society's 3-year budget, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their going concern assessment;

Challenging the appropriateness of the key assumptions used in management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;

Assessing and challenging key assumptions and mitigating actions put in place in response to the current economic situation, including but not limited to, the 'cost of living crisis', inflation levels and interest rates;

Considering the consistency of the directors' forecasts with other areas of the Annual Accounts and our audit; and

Evaluating the appropriateness of the directors' disclosures in the Annual Accounts on going concern.

# Independent Auditor's Report to the Members

Continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from when the Annual Accounts are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Annual Accounts of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. These matters were addressed in the context of our audit of the Annual Accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p>Credit risk – impairment of loans and advances to customers (2022:£1,153k, 2021:£2,272k) (Group and Society) Refer to page 45 for accounting policy, page 48, for Annual Accounts disclosures (note 9) and page 60 for credit risk disclosures.</p> <p>Credit risk is an inherently judgement area due to the use of subjective assumptions and high degree of estimation in arriving at the year end provisions. The total impairment provision of the Society is predominantly made up of individual provisions on loans with default indicators and a collective provision on the performing portfolio.</p> <p>A loan loss provision is recognised when there is objective evidence of impairment. The Society has a portfolio of legacy loans on which it has taken possession of the underlying collateral. It is holding the properties with an exit strategy to minimise losses. The timing of the disposals and the future sales value of the properties are uncertain.</p> <p>As a result, the estimation of individual loan impairment losses has a high degree of uncertainty in respect of future movements in property values, any forced sale discount that may need to be offered and the timing of the disposal (which is currently expected in more than a decade's time).</p> <p>The Society also has a collective provision on the current portfolio for which it has limited actual loss experience on which to base its impairment assessment, resulting in management judgement being applied in determining assumptions to be applied in its assessment.</p> <p>The collective impairment assessment may be sensitive to other factors applied to take account of the impact of inflation on borrowers' financial resilience and the strength of the UK property market.</p>	<p>We performed the following procedures:</p> <p>Assessed the design and implementation effectiveness, and tested the operating effectiveness, of the key controls that management had established, to review and challenge the appropriateness of key judgments and model governance;</p> <p>Assessed how management determined the accounting estimate, including the reasonableness of external data used and consider whether this was consistent with our understanding of the Society's portfolio;</p> <p>Critically challenged the forward looking assumptions used in the legacy portfolio impairment assessment with input from our valuation experts, including future HPI movements over the disposal window of the properties in possession, and the forced sale discount applied to future sales values;</p> <p>For loans against which the Society has taken possession, our property valuation expert has performed an independent assessment of the valuations used in the individual impairment calculations;</p> <p>Developed an auditor's estimate of the collective provision incurred loss using assumptions relevant to the Society's portfolio;</p> <p>Performed credit file reviews on loans with specific characteristics for an impairment assessment; and performed a stand back assessment of the resulting individual and collective impairment estimates.</p> <p>Our observations: Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable as at 31 August 2022.</p>

# Independent Auditor's Report to the Members

Continued

## Our Application of Materiality and an Overview of the Scope of our Audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Annual Accounts as a whole. Based on our professional judgement, we determined materiality for the Annual Accounts as a whole as follows:

Overall materiality	£299,000 (2021: £292,340) for Group and Society
How we determined it	1% of Net Assets (2021: 1% of Net Assets)
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Group and the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, net assets as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets are an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the Annual Accounts exceeds materiality for the Annual Accounts as a whole. We set performance materiality of £209,000 (2021: £175,400) was applied in the audit based on 70% (2021: 60%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the effectiveness of internal controls and the history of misstatements, and concluded that an amount toward the upper end of our normal range was appropriate.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £8,000 (2021: £8,770) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the Annual Accounts, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the Annual Accounts as a whole. We used the outputs of a risk assessment, our understanding of the Group and the Society, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the Group and the Society's Annual Accounts. We have set out below the group audit scope based on our risk assessment:

	2022	2021
Number of reporting entities subject to full audit scope	1 of 2	1 of 3
% of group revenue	100%	100%
% of group profit before tax	100%	97.53%
% of group total assets	99.94%	99.96%

Our group audit scope included an audit of the Group and the Society Annual Accounts. Based on our risk assessment, the Society was subject to a full scope audit by the group audit team.

At the Society level, the group team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.



# Independent Auditor's Report to the Members

Continued

## Other Information

The other information comprises the information included in the Annual Report and Accounts, other than the Annual Accounts and our Auditors' Report thereon. The directors are responsible for the other information. Our opinion on the Annual Account does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Annual Accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on the Annual Business Statement and the Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986 and regulations made under it;

the information in the Directors' Report for the financial year is consistent with the accounting records and the Annual Accounts; and

the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

## Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:

adequate accounting records have not been kept by the Group and Society; or

the Group's and Society's Annual Accounts are not in agreement with the accounting records; or

we have not obtained all the information and explanations which we consider necessary for the purpose of our audit.

## Responsibilities of Directors

As explained more fully in the Directors' Responsibilities statement set out on page 29, the directors are responsible for the preparation of the Annual Accounts and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Group and 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 the directors either intend to liquidate the Group and the Society or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Annual Accounts

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be

# Independent Auditor's Report to the Members

Continued

expected to influence the economic decisions of users taken on the basis of these Annual Accounts.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Group and the Society and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: the regulatory and supervisory requirements of the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA') and General Data Protection Regulation ('GDPR').

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

Gaining an understanding of the legal and regulatory framework applicable to the Group and the Society, the industry in which they operate, and the structure of the Group, and considered the risk of acts by the Group and the Society which were contrary to the applicable laws and regulations, including fraud;

Enquiring with the directors, management and, where appropriate, those charged with governance, as to whether the Group and the Society are in compliance with the laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;

Inspecting correspondence with relevant licensing or regulatory authorities, including the PRA and the FCA;

Reviewing minutes of meetings of the Board of Directors and the Audit Committee held in the year; and

Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance.

We also considered those other laws and regulations that have a direct impact on the preparation of Annual Accounts, such as the Building Societies Act 1986 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates.

Our procedures in relation to fraud included but were not limited to:

Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;

Gaining an understanding of the internal controls established to mitigate risks related to fraud;

Discussing amongst the engagement team the risks of fraud; and

Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key Audit Matters" within this report.

A further description of our responsibilities is available on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' Report.

# Independent Auditor's Report to the Members

Continued

## Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the directors on 21 April 2021 to audit the Annual Accounts for the year ended 31 August 2021 and subsequent financial year ends. The years of total uninterrupted engagement are two years, covering the years ended 31 August 2021 and 31 August 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and the Society and we remain independent of the Group and the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

## Use of the Audit Report

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's members as a body for our audit work, for this report, or for the opinions we have formed.

David Allen (Senior Statutory Auditor)

For and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Mazars LLP

One St Peter's Square

Manchester

M2 3DE

27 October 2022



# Income Statement and Statement of Comprehensive Income

For the year ended 31 August 2022

Income Statements		Group 2022	Group 2021	Society 2022	Society 2021
	Notes	£'000	£'000	£'000	£'000
Interest receivable and similar income	2	10,086	9,088	10,086	9,088
Interest payable and similar charges	3	(2,212)	(2,251)	(2,212)	(2,251)
		7,874	6,837	7,874	6,837
Fees and commissions receivable	4	260	314	132	127
Fees and commissions payable	5	(103)	(111)	(93)	(97)
Net gains from movement in fair value	6	448	142	448	142
Total net income		8,479	7,182	8,361	7,009
Administrative expenses	7	(6,543)	(5,985)	(6,402)	(5,831)
Depreciation and amortisation	17/18	(497)	(313)	(497)	(313)
Other operating charges		(51)	(14)	(51)	(14)
Dividend		-	-	166	-
Operating profit before impairment losses and provisions		1,388	870	1,577	851
Impairment losses on loans and advances	9	(598)	(101)	(598)	(101)
Profit on ordinary activities before tax		790	769	979	750
Tax on profit on ordinary activities	10	(79)	(105)	(85)	(105)
Profit for the financial year		<b>711</b>	<b>664</b>	<b>894</b>	<b>645</b>

The notes on pages 40 to 67 form part of these accounts.

The above results are all derived from continuing operations. The profit for the financial year is attributable to the Members of the Society.

		Group 2022	Group 2021	Society 2022	Society 2021
		£'000	£'000	£'000	£'000
	Notes				
Profit for the financial year		711	664	894	645
Items that may be subsequently reclassified to the Income Statement					
Net losses from changes in financial assets	26	(182)	(31)	(182)	(31)
Tax on items that may be reclassified to the Income Statement	26	-	1	-	1
Other Comprehensive Income for the year net of tax		(182)	(30)	(182)	(30)
Total Comprehensive Income for the financial year		<b>529</b>	<b>634</b>	<b>712</b>	<b>615</b>

# Statement of Financial Position

As at 31 August 2022

		Group 2022	Group 2021	Society 2022	Society 2021
Assets	Notes	£'000	£'000	£'000	£'000
<b>Liquid Assets</b>					
Cash in hand and balances with the Bank of England	11	76,495	70,378	76,495	70,378
Treasury Bills		-	6,000	-	6,000
Loans and advances to credit institutions	12	7,744	8,709	7,454	8,518
Debt securities	13	38,005	14,005	38,005	14,005
		122,244	99,092	121,954	98,901
Derivative Financial Instruments	14	4,643	161	4,643	161
<b>Loans and advances to customers</b>					
	9/15	337,492	366,606	337,492	366,606
Investments in subsidiary undertakings	16	-	-	-	-
Tangible Fixed Assets	17	2,501	2,596	2,501	2,596
Intangible Fixed Assets	18	2,954	1,935	2,954	1,935
Other assets - taxation	24	345	424	339	424
Prepayments and accrued income	19	320	226	320	226
<b>Total assets</b>		<b>470,499</b>	<b>471,040</b>	<b>470,203</b>	<b>470,849</b>
<b>Liabilities</b>					
Shares	20	417,061	415,207	417,061	415,207
Amounts owed to other customers	21	22,100	25,222	22,100	25,222
Derivative financial instruments	14	-	438	-	438
Other Liabilities	22	-	-	536	824
Accruals	23	1,360	724	1,360	724
<b>Total liabilities</b>		<b>440,521</b>	<b>441,591</b>	<b>441,057</b>	<b>442,415</b>
<b>Reserves</b>					
General Reserves	25	30,175	29,464	29,343	28,449
Available for sale reserves	26	(197)	(15)	(197)	(15)
<b>Total Reserves attributable to members of the society</b>		<b>29,978</b>	<b>29,449</b>	<b>29,146</b>	<b>28,434</b>
<b>Total liabilities and reserves</b>		<b>470,499</b>	<b>471,040</b>	<b>470,203</b>	<b>470,849</b>

The notes on pages 40 to 67 form part of these accounts.

Approved by the Board of Directors on 26th October 2022

N. M. Jordan

Chair

M. E. Selby

Chief Executive & Group Secretary

L. Payne

Finance Director



# Statement of Changes in Members' Interests

	Notes	General Reserve £'000	Available for Sale Reserve £'000	Total £'000
Group				
At 31 August 2020	25/26	28,800	15	28,815
Profit for the year		664	-	664
Net losses from changes in financial assets		-	(30)	(30)
At 31 August 2021	25/26	29,464	(15)	29,449
Profit for the year		711	-	711
Net losses from changes in financial assets		-	(182)	(182)
At 31 August 2022	25/26	<b>30,175</b>	<b>(197)</b>	<b>29,978</b>
Society				
At 31 August 2020	25/26	27,804	15	27,819
Profit for the year		645	-	645
Net losses from changes in financial assets		-	(30)	(30)
At 31 August 2021	25/26	28,449	(15)	28,434
Profit for the year		894	-	894
Net losses from changes in financial assets		-	(182)	(182)
At 31 August 2022	25/26	<b>29,343</b>	<b>(197)</b>	<b>29,146</b>

# Statement of Cash Flow

Statement of Cash Flow	Group	Group	Society	Society
For the year ended 31 August 2022	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Profit before tax	790	769	979	750
Depreciation and amortisation of fixed assets	497	313	497	313
Increase in fair value and hedged items	(448)	(142)	(448)	(142)
Decrease/(Increase) in effective interest rate adjustment	144	(113)	144	(113)
Loss on disposal of properties in possession	36	314	36	314
Impairment charge	598	101	598	101
Net (gains)/losses on disposal and amortisation of debt securities	(182)	18	(182)	18
	1,435	1,260	1,624	1,241
Changes in operating assets and liabilities				
Decrease in loans and advances to customers	21,818	4,096	21,818	4,096
Increase/ (decrease) in accruals and deferred income	636	(4)	636	(4)
(Increase)/Decrease in prepayments and accrued income	(94)	6	(94)	6
Decrease in amounts owed to credit institutions	-	(17,253)	-	(17,253)
(Increase) / decrease in amounts owed to other customers	(3,122)	2,798	(3,122)	2,798
Increase in loans and advances to credit institutions	(965)	(2,000)	(965)	(2,000)
(Decrease) / increase in other liabilities	-	-	(288)	42
Increase in shares	1,854	20,188	1,854	20,188
Cash received on sale of properties in possession	3,509	3,314	3,509	3,314
Taxation refunded	-	87	-	87
Net cash generated from operating activities	<b>23,636</b>	<b>11,232</b>	<b>23,348</b>	<b>11,274</b>
Cash flows from investing activities				
Purchase of tangible fixed assets	(54)	(44)	(54)	(44)
Purchase of intangible fixed assets	(1,367)	(1,746)	(1,367)	(1,746)
Purchase of investment securities	(38,000)	(26,000)	(38,000)	(26,000)
Maturities and disposal of debt securities	20,000	29,982	20,000	29,982
Net cash (generated)/ used in investing activities	<b>(19,421)</b>	<b>2,192</b>	<b>(19,421)</b>	<b>2,192</b>
Net increase in cash and cash equivalents	5,650	14,684	5,551	14,707
Cash and cash equivalents at 1 September	77,087	62,403	76,896	62,189
Cash and cash equivalents at 31 August	<b>82,737</b>	<b>77,087</b>	<b>82,447</b>	<b>76,896</b>

# Notes to the Accounts

## Accounting Policies

### Note 1.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

## Basis of Preparation

The Annual Accounts have been prepared in compliance with Financial Reporting Standard 102 (FRS102), The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice), the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended).

## Going Concern

The Society prepares detailed forecasts ('Corporate Plan') for the three years following the year ended in these financial statements. The forecasts reflect the uncertain economic environment, specifically with reference to COVID-19 and Brexit. Furthermore, the Society models the impact of severe but plausible scenarios on capital and liquidity through robust stress testing and analysis of changes on key sensitivities. The Board is satisfied that based on empirical evidence, and current market data, the severe but plausible stress scenarios are in fact more severe than that previously or currently experienced by the Society, particularly in reference to COVID-19 and/or Brexit and the financial crisis of 2007/2008.

These severe but plausible stresses are established and defined in detail during the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), in line with PRA requirements. Considerations are given to a range of factors, including but not limited to HPI fluctuations, changes in customer propensity of default, unemployment, interest rate changes and circumstances that may give rise to funding outflows either on an idiosyncratic level or sector wide.

The Society maintains a surplus over regulatory limits for both capital and liquidity throughout the stresses. The Board, therefore, is satisfied that the Society has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Accordingly it continues to adopt the going concern basis in preparing the financial statements.

## Basis of Accounting

The Annual Accounts have been prepared on a going concern basis under the historical cost convention with the exception of the following:

- Available for sale assets are held at fair value;
- Derivatives are held at fair value, and underlying hedged items are held at fair value, with respect to interest rate risk.

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

## Basis of Consolidation

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

## Exemptions

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

## Investments in Subsidiary Undertakings



# Notes to the Accounts

Continued

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

## Interest Income and Expense

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

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

## Fees and Commissions

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

## Financial Assets

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

### a) Loans and Receivables

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

### b) Financial Assets at Fair Value through the Income Statement

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

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. As permitted under IAS 39, the Group applies macro fair value hedge accounting for a portfolio of fixed rate mortgages using SONIA based interest rate swaps. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the Income Statement together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain/(losses) from derivative financial instruments.

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

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

### c) Available for Sale Assets – Debt Securities

Available for sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They

# Notes to the Accounts

Continued

may be sold in response to needs for changes in liquidity or changes in interest rates. The Group's debt securities are classified as available-for-sale assets. The Group measures debt securities at fair value, with subsequent changes in fair value being recognised through the Statement of Comprehensive Income and presented in the available for sale reserve within equity, except for impairment losses which are recognised in the Income Statement. When the asset is sold, the change in fair value accumulated in the equity is released to the Income Statement.

Further information regarding how fair values are determined can be found in Note 29 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available-for-sale reserves and recycled to the Income Statement.

## d) Offsetting

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

## e) Financial Liabilities

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

## Taxation

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

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

Deferred tax is recognised providing for timing differences between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the Statement of Financial Position date, depending on the date at which they are expected to reverse. Deferred tax assets are only recognised where it is probable that future taxable profit will be available against which timing differences can be utilised.

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

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

FRS102 prohibits discounting of deferred tax.

## Tangible Fixed Assets

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

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

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

- Freehold buildings and leasehold properties (long) – 50 years on a straight line basis
- Leasehold land and leasehold properties (short) – Life of lease on a straight line basis

# Notes to the Accounts

Continued

- Equipment, fixtures and fittings – 5 to 10 years on a straight line basis
- Vehicles – 25% on the reducing balance.

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

## Intangible Assets

The costs of computer software acquired where the Group will derive future economic benefit are capitalised at the acquisition date. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful lives. Computer software is amortised from the date it is available for use. The estimated useful lives are within a range of 1 to 10 years based on historical experience.

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

## Cash and Cash Equivalents

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

## Dividend Income

Dividend income is recognised when the right to receive payment is established. Where the substance of the dividend is a return of capital, that element of the dividend is offset against the carrying value of the investment. In all other cases, dividend income is taken to the Income Statement.

## Leases

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

## Impairment of Loans and Advances to Customers and Forbearance

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

Objective evidence that financial assets are impaired includes:

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

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. The Group considered specific impairments to be those which are subject to forbearance, in possession, with a loan to value greater than 100% or one month or more in arrears. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by Grouping together loans and advances with similar risk characteristics.

# Notes to the Accounts

## Continued

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

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

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

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

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

## Impairment Losses on Debt Securities

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

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

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

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the

# Notes to the Accounts

Continued

Statement of Financial Position date, then, in the case of available for sale instruments, the cumulative loss that had been recognised directly in reserves is removed from reserves and recognised in the Income Statement. In the case of held to maturity instruments an appropriate charge is made to the Income Statement.

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

## Pension Costs

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

## Incentive Schemes

The Society offers Executive Directors and Senior Team members a medium-term incentive plan, with the awards of the scheme payable over 3 years. Schemes may run concurrently, with the associated accounting treatment considering each award with different service periods charges against profits in the period to which they relate should a member exit the Society's employment, future payments are immediately forfeited.

## Critical Accounting Estimates and Judgements

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

These estimates and judgements are described below:

### a) Impairment Losses and Advances

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

The Group considers the carrying value stated is subject to uncertainties such as the material assumptions of changes in house value and date of disposal. Modelling assesses the loss on loans and advances as a result of expected movements in house prices and the forced sale discount on properties in possession as well as the likely time taken to recover a loan through the sale of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience. Provision increases in the year were £598k (2021: £101k), further information is available in Note 9.

The expected date of disposal of the individually impaired mortgage asset is an important assumption in determining the level of impairment provision. If the date of disposal was within 1 year of the Statement of Financial

Position date, it would result in the impairment provision being increased from £1.1m to £1.5m. Alternatively an assumed 15 year disposal plan would result in the impairment provision being reduced from £1.1m to £0.1m.

Forecast movements in house price indices is a second important assumption in determining the level of impairment provision required. Currently the impairment provisioning models include HPI assumptions drawn from a variety of external sources. Assuming no rise in HPI in the next 5 years, would result in the impairment provisioning being increased from £1.1m to £1.3m. Conversely assuming annual growth in HPI of 5% over the next 5 years would result in the impairment provisioning model being decreased from £1.1m to £1.0m.

### b) Effective Interest Rate ('EIR')

FRS102 requires that all of the cash flows directly associated with financial instruments must be recognised in the Income Statement using the effective interest rate method. When this approach is applied to a mortgage portfolio,



# Notes to the Accounts

Continued

judgements must be made to estimate the average life of each mortgage where a product fee is attached. These judgements are applied taking into account factors including the terms of the particular products, historical repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance. The carrying value of these adjustments is currently £488k (2021: £632k), further information is available in Note 15.

## c) Hedge Accounting and the Fair Values of Derivatives

As a risk management tool the Society uses interest rate derivatives as a hedging instrument against mortgage exposures in accordance with IAS 39. Qualifying hedging relationships are assessed on an ongoing basis, with the relationship required to be within 80-125% effective to qualify. If effective the changes in fair value of mortgage asset are offset by the changes in value of the derivative. This process is formally documented and the judgement is applied as to whether hedge accounting conditions are met.

## d) Fair values of Derivatives and Financial Assets

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

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

2. Interest receivable and similar income	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
On loans fully secured on residential property	9,222	9,574	9,222	9,574
On other loans	171	308	171	308
On debt securities- interest and other income	195	36	195	36
On other liquid assets- interest and other income	529	77	529	77
Loss generated from sale of properties in possession	(36)	(270)	(36)	(270)
Net interest expense on derivative financial instruments	5	(637)	5	(637)
	<b>10,086</b>	<b>9,088</b>	<b>10,086</b>	<b>9,088</b>

3. Interest payable and similar charges	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
On shares held by individuals	1,934	2,032	1,934	2,032
On deposits and other borrowings	278	219	278	219
	<b>2,212</b>	<b>2,251</b>	<b>2,212</b>	<b>2,251</b>

4. Fees and commissions receivable	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Insurance commissions	39	30	39	30
Fees receivable	89	90	89	90
Rentals and sundry income	4	7	4	7
Subsidiary fee income - financial advice and services	128	187	-	-
	<b>260</b>	<b>314</b>	<b>132</b>	<b>127</b>

# Notes to the Accounts

Continued

5. Fees and commission payable	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Bank charges	69	72	69	72
Other fees payable	34	39	24	25
	<b>103</b>	<b>111</b>	<b>93</b>	<b>97</b>

6. Net gains from movement in fair value	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Derivatives in designated fair value hedge relationships	4,703	1,088	4,703	1,088
Adjustments to hedging items in fair value hedge accounting relationships	(4,472)	(936)	(4,472)	(936)
Derivatives not in designated fair value hedge relationships	217	(10)	217	(10)
	<b>448</b>	<b>142</b>	<b>448</b>	<b>142</b>

The net gains from movement in fair value represent matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. This gain or loss will tend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

7. Administrative expenses and staff numbers	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Administrative expenses				
Directors' emoluments:				
(i) Fees	170	183	170	183
(ii) For executive services	515	458	515	458
Remuneration and expenses of staff:				
(i) Salaries and wages	2,599	2,501	2,489	2,388
(ii) Social security costs	341	307	330	295
(iii) Other pension costs	166	186	166	186
Remuneration of auditors *				
For audit work	139	128	139	128
Operating leases- land and buildings	24	58	24	58
Other administrative expenses	2,589	2,164	2,569	2,135
	<b>6,543</b>	<b>5,985</b>	<b>6,402</b>	<b>5,831</b>

\* Remuneration of the auditors disclosed above excludes VAT. The fee of £139,000 is in respect of 2022 services and includes £7,000 which relates to the audit of the subsidiary financial statements (2021: £7,000).

Staff numbers	2022		2021	
	Full time	Part time	Full time	Part time
The average monthly number of persons employed during the year:				
At head office	33	12	40	10
At branch offices	20	10	23	11
Society	53	22	63	21
Subsidiary undertakings	2	1	3	1
Group	<b>55</b>	<b>23</b>	<b>66</b>	<b>22</b>

# Notes to the Accounts

Continued

## 8. Directors' and Key Managers Remuneration

Total remuneration of the Society's Directors for the year was £685,000 (2021: £641,000). Full details are given in the Directors' Remuneration Report on page 19. Remuneration of key management personnel, who are not Executive Directors, for the year was £545,000 (2021: £561,000). The Society does not contribute to Non-Executive Directors' pensions.

Directors' loans and transactions (a) As at 31 August 2022 there were 3 (2021: 3) outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons, amounting in aggregate to £919,157 (2021: £949,734). As at 31 August 2022 a total of £118,684 (2021: £25,356) was held in Society savings by the Directors. (b) During the year there were no services provided to the Society by any connected business of a serving director. At 31 August 2022, there were no amounts outstanding to any connected businesses (2021: £nil). There were no significant contracts with the Society subsisting during or at the end of the financial year in which a director of the Society (or a person connected with a director of the Society) is, or was, interested.

## 9. Provisions for impairment losses on loans and advances to customers

	Group			Society		
	Loans fully secured on residential property	Other loans fully secured on land	Total	Loans fully secured on residential property	Other loans fully secured on land	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Individual position</b>						
At 1 September 2021	2,172	-	2,172	2,172	-	2,172
Amounts utilised	(1,717)	-	(1,717)	(1,717)	-	(1,717)
Increase in the year	598	-	598	598	-	598
At 31st August 2022	<b>1,053</b>	<b>-</b>	<b>1,053</b>	<b>1,053</b>	<b>-</b>	<b>1,053</b>
<b>Collective provision</b>						
At 1 September 2021	88	12	100	88	12	100
Movement in the year	-	-	-	-	-	-
At 31 August 2022	<b>88</b>	<b>12</b>	<b>100</b>	<b>88</b>	<b>12</b>	<b>100</b>
<b>Individual provision</b>						
At 1 September 2020	4,735	-	4,735	4,735	-	4,735
Amounts utilised	(2,924)	-	(2,924)	(2,924)	-	(2,924)
Increase in the year	361	-	361	361	-	361
At 31 August 2021	<b>2,172</b>	<b>-</b>	<b>2,172</b>	<b>2,172</b>	<b>-</b>	<b>2,172</b>
<b>Collective provision</b>						
At 1 September 2020	348	12	360	348	12	360
Movement in the year	(260)	-	(260)	(260)	-	(260)
At 31 August 2021	<b>88</b>	<b>12</b>	<b>100</b>	<b>88</b>	<b>12</b>	<b>100</b>
<b>Total provision</b>						
As at August 31 2022	<b>1,141</b>	<b>12</b>	<b>1,153</b>	<b>1,141</b>	<b>12</b>	<b>1,153</b>
As at August 31 2021	<b>2,260</b>	<b>12</b>	<b>2,272</b>	<b>2,260</b>	<b>12</b>	<b>2,272</b>

The Provisions as at 31 August 2022 and 2021 have been deducted from loans fully secured on residential property and loans fully secured on land in the Statement of Financial Position. Full details are included in Note 15, 'Loans and advances to customers'. During the year the Society disposed of 5 portfolios of properties (2021: 5) utilising specific provisions of £1,935k gross, £1,717k net (2021: £3,437k) previously allocated to the exposure.



# Notes to the Accounts

Continued

10. Tax on profit on ordinary activities	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
a) Analysis of charge in year:				
Current tax	(6)	(127)	-	(127)
Origination and reversal of timing differences (see note 25)	85	232	85	232
<b>Tax on profit on ordinary activities</b>	<b>79</b>	<b>105</b>	<b>85</b>	<b>105</b>
b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	790	769	979	750
Tax on profit on ordinary activities	149	145	185	141
Effects of:				
Adjustments in respect of prior periods	-	(127)	-	(127)
Fixed Asset Differences	(61)	27	(61)	27
Income not subject to tax	-	-	(30)	-
Remeasurement of deferred tax from 25% to 19%	29	(16)	29	(16)
Movement in deferred tax not recognised	(38)	-	(38)	-
Deferred Tax charged directly to Other Comprehensive Income	-	(1)	-	(1)
Losses carried back	-	77	-	77
Group Tax Relief surrendered/ (claimed)	-	-	-	4
<b>Current tax charge for year</b>	<b>79</b>	<b>105</b>	<b>85</b>	<b>105</b>

The standard rate of Corporation Tax in the UK was 19% and accordingly the Society's profits have been taxed at this effective rate (2021: 19%). Deferred tax has been measured based on the substantively enacted rate of 25%. Further details on deferred tax are included in Note 24.

11. Cash in hand and balances with the Bank of England	2022	2021
	£'000	£'000
Cash in hand	393	372
Bank of England Reserve Account	76,102	70,006
	<b>76,495</b>	<b>70,378</b>

Cash and cash equivalents on the Statements of Cash Flow constitutes cash in hand and balances with the Bank of England and loans and advances to credit institutions with maturities of less than three months. This totals £82,737k (2021: £77,087k) for the Group and £82,447k (2021: £76,896k) for the Society.

12. Loans and advances to credit institutions	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans and advances to credit institutions remaining maturities as follows:				
Repayable on demand	6,242	6,709	5,952	6,518
Not more than three months	501	-	501	-
In more than three months but not more than one year	1,001	2,000	1,001	2,000
	<b>7,744</b>	<b>8,709</b>	<b>7,454</b>	<b>8,518</b>

The Society has five Credit Support Annexes (CSA) for its derivative instruments which typically provides for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure. As at 31 August 2022 a total exchange of collateral of £1,058k (2021: £1,058k) has taken place in accordance with the trigger points within the respective CSA. These are included within loans and advances to credit institutions and are repayable on demand.

# Notes to the Accounts

Continued

13. Debt securities	Group and Society	
	2022	2021
	£'000	£'000
Treasury bills issued by UK Government	-	6,000
Certificates of deposits	38,005	14,005
	<b>38,005</b>	<b>20,005</b>

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

	Group and Society	
	2022	2021
	£'000	£'000
Movements in debt securities during the year are summarised as follows:		
At 1 September 2021	20,005	24,036
Additions	38,000	26,000
Disposals and maturities	(20,000)	(29,982)
Movement in premium and accrued interest	182	(18)
Losses in fair value recognised other comprehensive income	(182)	(31)
	<b>38,005</b>	<b>20,005</b>

14. Derivative financial instruments	Group and Society		
	Contract Notional Amount	Fair Value Assets	Fair Value Liabilities
	£'000	£'000	£'000
At 31 August 2022			
Unmatched derivatives- Interest rate swaps	12,300	198	-
Derivatives designated as fair value hedges interest rate swaps	125,000	4,445	-
	<b>137,300</b>	<b>4,643</b>	<b>-</b>
At 31 August 2021			
Unmatched derivatives- Interest rate swaps	16,000	1	20
Derivatives designated as fair value hedges interest rate swaps	117,500	160	418
	<b>133,500</b>	<b>161</b>	<b>438</b>

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

# Notes to the Accounts

Continued

15. Loans and advances to customers	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans and advances to customers comprise:				
Loans fully secured on residential property	338,664	359,126	338,664	359,126
Loans fully secured on land	3,143	7,323	3,143	7,323
Fair value adjustment for hedged risk	(4,315)	157	(4,315)	157
	<b>337,492</b>	<b>366,606</b>	<b>337,492</b>	<b>366,606</b>

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

Fair value hedging adjustments of £4,315k (2021: £157k) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

The maturity of loans fully secured on residential property and loans fully secured on land from the date of Statements of Financial Position is as follows:

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Repayable on demand	1,644	6,912	1,644	6,912
In not more than three months	285	3,607	285	3,607
In more than three months but not more than one year	4,807	10,374	4,807	10,374
In more than one year but not more than five years	18,197	58,335	18,197	58,335
In more than five years	317,539	288,861	317,539	288,861
	<b>342,472</b>	<b>368,089</b>	<b>342,472</b>	<b>368,089</b>
Provisions for bad and doubtful debts (See Note 9)	(1,153)	(2,272)	(1,153)	(2,272)
Fair value adjustment for hedged risk	(4,315)	157	(4,315)	157
Effective Interest Rate Adjustment	488	632	488	632
	<b>337,492</b>	<b>366,606</b>	<b>337,492</b>	<b>366,606</b>

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

Included in loans secured on residential property is a total of 1 case (2021: 5), with a balance outstanding of £1.68m (2021: £7.07m), of which is in possession. Although this case has experienced previous financial difficulty, these properties have now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream which exceeds current funding costs. As at 31 August 2022 total specific impairment provisions of £0.70m (2021: £2.14m) are held against these exposures.

# Notes to the Accounts

Continued

## 16. Investments

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

### Principal Activity

Hanley Financial Services Limited                      Financial advisory services

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

As at 31 August 2022 amounts due to Hanley Financial Services Limited from the Society of £536k (2021: £659k).

During the year, the Society closed its wholly owned subsidiary, Hanley Mortgage Services Limited, resulting in payment of a dividend settled through intercompany balances.

The subsidiary had not traded since the mortgage portfolio was transferred to the Society in 2017.

17. Tangible fixed assets	Group and Society				
	Land and Buildings				
2022	Freehold	Long Lease	Short Lease	Equipment, Fixtures, Fittings & Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost at 1 September 2021	1,020	2,124	249	1,107	4,500
Additions during the year	11	-	-	43	54
Disposals during the year	-	-	-	-	-
<b>Cost at 31 August 2022</b>	<b>1,031</b>	<b>2,124</b>	<b>249</b>	<b>1,150</b>	<b>4,554</b>
Depreciation at 1 September 2021	368	472	249	815	1,904
Charge for the year	20	39	-	90	149
Disposals during the year	-	-	-	-	-
<b>Depreciation at 31 August 2022</b>	<b>388</b>	<b>511</b>	<b>249</b>	<b>905</b>	<b>2,053</b>
Net book value:					
at 31 August 2021	652	1,652	-	292	2,596
<b>at 31 August 2022</b>	<b>643</b>	<b>1,613</b>	<b>-</b>	<b>245</b>	<b>2,501</b>

All land and buildings, with exception of one part-occupied building, are fully occupied by the Group and the Society for its own activities.

# Notes to the Accounts

Continued

18. Intangible fixed assets		Group and Society	
Software		2022	
		£'000	
Cost as at 1 September 2021		2,582	
Additions during the year		1,367	
Disposals during the year		-	
Cost as at 31 August 2022		<b>3,949</b>	
Amortisation as at 1 September 2021		647	
Charge for the year		348	
Disposals during the year		-	
Amortisation as at 31 August 2022		<b>995</b>	
Net Book Value			
at 31 August 2021		<b>1,935</b>	
at 31 August 2022		<b>2,954</b>	

19. Prepayments and accrued income	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Prepayments and accrued income	320	226	320	226
	<b>320</b>	<b>226</b>	<b>320</b>	<b>226</b>

20. Shares		Group and Society	
		2022	2021
		£'000	£'000
Held by individuals		417,061	415,207
		<b>417,061</b>	<b>415,207</b>

Repayable from the date of the balance in the ordinary course of business as follows:			
Accrued interest		498	453
Repayable on demand		231,785	340,365
In not more than three months		131,172	20,713
In more than three months but not more than one year		27,072	16,986
In more than one year		26,534	36,690
		<b>417,061</b>	<b>415,207</b>

# Notes to the Accounts

Continued

21. Amounts owed to other customers	Group and Society	
	2022	2021
	£'000	£'000
Repayable from the date of the balance in the ordinary course of business as follows:		
Accrued interest	-	11
Repayable on demand	21,384	20,061
In not more than three months	716	1,250
In more than three months but not more than one year	-	3,900
In more than one year but not more than five years	-	-
	<b>22,100</b>	<b>25,222</b>

22. Other Liabilities	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Corporation tax due within one year	-	-	-	-
Amounts due to Group undertakings (See note 16)	-	-	536	824
	-	-	<b>536</b>	<b>824</b>

23. Accruals	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Accruals	1,360	724	1,360	724
	<b>1,360</b>	<b>724</b>	<b>1,360</b>	<b>724</b>

24. Deferred Taxation	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current tax asset	152	146	146	146
Deferred tax asset	193	278	193	278
Total tax assets	<b>345</b>	<b>424</b>	<b>339</b>	<b>424</b>
Composition of the deferred tax balance:				
Fixed asset timing differences	(986)	(588)	(986)	(588)
Short term timing differences	564	752	564	752
Losses and other deductions	615	114	615	114
	<b>193</b>	<b>278</b>	<b>193</b>	<b>278</b>
Deferred taxation at 1 September 2021	278	511	278	511
Fixed asset timing differences	(398)	(319)	(398)	(319)
Short term timing differences	(188)	(189)	(188)	(189)
Losses and other deductions	501	114	501	114
Effect of change on tax rate	-	161	-	161
At 31 August 2022	<b>193</b>	<b>278</b>	<b>193</b>	<b>278</b>

The deferred tax asset is recognised at the substantively enacted tax rate of 25% (2021: 25%). Recognition of deferred tax assets depends on the availability of future taxable trading profits. Further details are included in Note 1.

# Notes to the Accounts

Continued

25. General reserves	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
At 1 September as previously stated	29,464	28,800	28,449	27,804
Profit for the financial year	711	664	894	645
	<b>30,175</b>	<b>29,464</b>	<b>29,343</b>	<b>28,449</b>

26. Available for sale reserves	Group and Society	
	2022	2021
	£'000	£'000
At 1 September	(15)	15
Net gain from change in fair value	(182)	(31)
	(197)	(16)
Deferred Tax on Available for Sale Reserve	-	1
	<b>(197)</b>	<b>(15)</b>

27. Guarantees and other financial commitments	Group and Society	
	2022	2021
	Land and buildings £'000	Land and buildings £'000
Operating leases which expire:		
Within one year	47	47
Within two to five years	97	144
	<b>144</b>	<b>191</b>

28. Country by Country Reporting	
Group Total Operating Income	£7.9m (2021: £6.8m)
Profit before tax	£0.8m (2021: £0.8m)
FTE	71 (2021: 80)

No Corporation Tax was paid or due in the year (2021: £Nil)

No public subsidies were received during the year (2021: £Nil)

# Notes to the Accounts

Continued

## 29. Financial Instruments

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

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets & Liabilities Committee. Instruments used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Society in accordance with the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

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

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

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

The fair value of these hedges at 31 August 2022 and 31 August 2021 are shown in Note 14. The following table sets out a summary of terms and conditions and accounting policies for financial instruments.

Financial Instrument	Terms & Conditions	Accounting Policy
Loans and advances to credit institutions	Fixed interest rates	Loans and receivables at amortised cost Accounted for at settlement date
	Fixed term	
	Short to medium term maturity	
Debt securities	Fixed interest rates	Loans and receivables at amortised cost Accounted for at settlement date
	Fixed term	
	Short to medium term maturity	
Loans and advances to customers	Secured on residential property or land	Loans and receivables at amortised cost
	Standard contractual term	
	Fixed or variable interest rate	
Shares	Variable term	Amortised cost
	Fixed or variable interest rates	Accounted for at settlement date
Amounts owed to credit institutions	Fixed interest rates	Amortised cost Accounted for at settlement date
	Fixed term	
	Short to medium term maturity	
Amounts owed to other customers	Fixed interest rates	Amortised cost Accounted for at settlement date
	Fixed term	
	Short to medium term maturity	
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/ received	Fair value through the Income Statement Accounted for at trade date
	Based on notional value of derivative	



# Notes to the Accounts

Continued

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

29. Financial instruments	Group					
	Held at amortised cost		Held at fair value			
Carrying values by category 31 August 2022	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Cash in hand and balances with Bank of England	-	76,495	-	-	-	76,495
Loans and advances to credit institutions	7,744	-	-	-	-	7,744
Debt securities	-	-	38,005	-	-	38,005
Derivative financial instruments	-	-	-	4,445	198	4,643
Loans and advances to customers	337,492	-	-	-	-	337,492
<b>Total financial assets</b>	<b>345,236</b>	<b>76,495</b>	<b>38,005</b>	<b>4,445</b>	<b>198</b>	<b>464,379</b>
<b>Total non-financial assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,120</b>
<b>Total Group assets</b>	<b>345,236</b>	<b>76,495</b>	<b>38,005</b>	<b>4,445</b>	<b>198</b>	<b>470,499</b>
<b>Financial liabilities</b>						
Shares	-	417,061	-	-	-	417,061
Amounts owed to other customers	-	22,100	-	-	-	22,100
Derivative financial instruments	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>439,161</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>439,161</b>
<b>Total non-financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,360</b>
General and other reserves	-	-	-	-	-	29,978
<b>Total Group liabilities</b>	<b>-</b>	<b>439,161</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470,499</b>

# Notes to the Accounts

Continued

29. Financial instruments	Group					
	Held at amortised cost		Held at fair value			
Carrying values by category 31 August 2021	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Cash in hand and balances with Bank of England	-	70,378	-	-	-	70,378
Loans and advances to credit institutions	8,709	-	-	-	-	8,709
Debt securities	-	-	20,005	-	-	20,005
Derivative financial instruments	-	-	-	160	1	161
Loans and advances to customers	366,606	-	-	-	-	366,606
<b>Total financial assets</b>	<b>375,315</b>	<b>70,378</b>	<b>20,005</b>	<b>160</b>	<b>1</b>	<b>465,859</b>
Total non-financial assets	-	-	-	-	-	5,181
<b>Total Group assets</b>	<b>375,315</b>	<b>70,378</b>	<b>20,005</b>	<b>160</b>	<b>1</b>	<b>471,040</b>
<b>Financial liabilities</b>						
Shares	-	415,207	-	-	-	415,207
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	-	25,222	-	-	-	25,222
Derivative financial instruments	-	-	-	418	20	438
<b>Total financial liabilities</b>	<b>-</b>	<b>440,429</b>	<b>-</b>	<b>418</b>	<b>20</b>	<b>440,867</b>
Total non-financial liabilities	-	-	-	-	-	724
General and other reserves	-	-	-	-	-	29,449
<b>Total Group liabilities</b>	<b>-</b>	<b>440,429</b>	<b>-</b>	<b>418</b>	<b>20</b>	<b>471,040</b>

# Notes to the Accounts

Continued

29. Financial instruments continued		Group			
Fair values of financial assets and liabilities carried at fair value	Notes	Level 1	Level 2	Level 3	Total
		£'000	£'000	£'000	£'000
As at 31 August 2022					
Financial assets					
Available-for-sale					
Debt securities	13	38,005	-	-	38,005
Derivative financial instruments					
Interest rate swaps	14	-	4,643	-	4,643
		<b>38,005</b>	<b>4,643</b>	<b>-</b>	<b>42,648</b>
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	-	-	-	-
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
As at 31 August 2021					
Financial assets					
Available-for-sale					
Debt securities	13	20,005	-	-	20,005
Derivative financial instruments					
Interest rate swaps	14	-	161	-	161
		<b>20,005</b>	<b>161</b>	<b>-</b>	<b>20,166</b>
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	-	438	-	438
		<b>-</b>	<b>438</b>	<b>-</b>	<b>438</b>

## Fair values of financial assets and liabilities

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data. The Society does not hold any level 3 assets or liabilities.

# Notes to the Accounts

Continued

## Credit Risk

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

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

29. Financial instruments continued	Group	Group	Society	Society
	2022	2021	2022	2021
Credit risk	£'000	£'000	£'000	£'000
Credit risk exposure				
Cash in hand and balances with Bank of England	76,495	70,378	76,495	70,378
Loans and advances to credit institutions	7,744	8,709	7,454	8,518
Debt securities	38,005	20,005	38,005	20,005
Derivative financial instruments	4,643	161	4,643	161
Loans and advances to customers	337,492	366,606	337,492	366,606
Total statement of financial exposure	464,379	465,859	464,089	465,668
Off balance sheet exposure - mortgage commitments	31,592	27,123	31,592	27,123
Total statement of financial exposure	<b>495,971</b>	<b>492,982</b>	<b>495,681</b>	<b>492,791</b>

Loans and advances to credit institutions, debt securities and derivative financial instruments. The Assets & Liabilities Committee is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to a single counterparty, or Group of counterparties, and to industry sectors. This is managed within a framework to ensure risk exposure is managed within the risk appetite set by the Board.

The Society's Liquidity Policy only permits lending to central government (which includes the Bank of England), banks with a high credit rating and building societies. This involved the use of strict mandates and counterparty risk assessments and monitoring.

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

29. Financial instruments continued	Group			
	2022	2022	2021	2021
Industry sector	£'000	%	£'000	%
Banks	39,233	32.09	15,712	15.86
Building Societies	6,516	5.33	7,002	7.07
Central Bank	76,495	62.58	70,378	71.02
Central Government	-	-	6,000	6.05
	<b>122,244</b>	<b>100.00</b>	<b>99,092</b>	<b>100.00</b>

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

The Group's derivative financial instruments are analysed by geographical origin and credit rating of counterparty in the table below:

29. Financial instruments continued	Group						
	2022	AA-	A+	A	A-	Other	2021
Liquidity by Geographic region	£'000	%	%	%	%	%	£'000
United Kingdom	108,414	70.56	23.43	-	4.62	1.39	98,772
Europe	6,820	-	95.31	-	4.69	-	320
Australia	-	-	-	-	-	-	-
Canada	7,010	100.00	-	-	-	-	-

# Notes to the Accounts

Continued

29. Financial instruments continued	Group					2021
	2022	AA-	A+	A	A-	
Derivative Financial Instrument by Geographic region	£'000	%	%	%	%	£'000
United Kingdom	125,800	6.12	93.88	-	-	115,100
Europe	11,500	-	-	-	100.00	18,400

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

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

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

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

29. Financial Instruments continued	Group and Society	
Loans and advances to customers	2022	2021
	%	%
Geographical analysis		
East Anglia	4	4
East Midlands	5	5
London and South East	30	29
North East	3	3
North West	13	15
South West	8	8
Wales	3	4
West Midlands	23	22
Yorkshire and Humberside	6	6
Scotland	5	4
	<b>100</b>	<b>100</b>

29. Financial Instruments continued	Group and Society	
Loan to Value (LTV) analysis	2022	2021
	%	%
0% - 50%	39	33
>50% - 60%	12	11
>60% - 70%	17	11
>70% - 80%	21	14
>80% - 90%	6	25
>90% - 100%	3	3
>100%	2	3
	<b>100</b>	<b>100</b>
Average loans to value of mortgage loans (%)	<b>45</b>	<b>53</b>

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

Further information is available in Note 1.

# Notes to the Accounts

Continued

29. Financial instruments continued	Group and Society			
	2022	2022	2021	2021
	£'000	%	£'000	%
Arrears analysis				
Not impaired:				
Neither past due or impaired	326,530	95.35	348,108	94.57
Past due up to 3 months	4,051	1.18	5,573	1.51
Past due 3 - 6 months	686	0.20	631	0.17
Past due 6 - 12 months	-	-	148	0.04
Past due over 12 months	-	-	-	-
Impaired:				
Not due past	6,782	1.98	6,792	1.85
Past due up to 3 months	71	0.02	-	-
Past due 3 - 6 months	2,708	0.79	-	-
Past due 6 - 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions and LPA receiverships	1,644	0.48	6,837	1.86
<b>Total as per Note 15</b>	<b>342,472</b>	<b>100.00</b>	<b>368,089</b>	<b>100.00</b>
	Indexed	Unindexed	Indexed	Unindexed
	£'000	£'000	£'000	£'000
Value of collateral held:				
Neither past due or impaired	883,288	674,821	804,130	674,820
Past due but not impaired	12,680	8,316	10,368	7,522
Impaired	12,804	9,372	13,418	11,952
	<b>908,772</b>	<b>692,509</b>	<b>827,916</b>	<b>694,294</b>

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

The quality of the Group's mortgage book is reflected in the value of mortgage accounts in arrears as a percentage of the overall portfolio of 2.19% (2021: 1.72%).

With collateral capped to the amount of outstanding debt, the value of collateral held against 'Impaired' assets at 31 August 2022 is £12,804k (2021: £13,418k) against outstanding debt of £11,215k (2021: £13,629k). Any shortfall in collateral on impaired mortgage exposures is a key consideration in the assessment of the adequacy of individual impairment provisions. See Note 1.

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

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

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

# Notes to the Accounts

Continued

## Forbearance

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

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

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

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

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

At 31 August 2022 the Society had 6 cases (2021: 9) subject to forbearance measures with total balances of £0.77m (2021: £3.58m). In each instance the loans were not impaired and were subject to interest only concessions at the year end.

## Liquidity risk

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

Meet day-to-day business needs;

Meet any unexpected cash needs;

Maintain public confidence; and

Ensure maturity mismatches are provided for.

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

The Society's Liquidity Policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios.

A series of liquidity stress tests have been developed as part of the liquidity risk assessment process. They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (the idiosyncratic, market-wide and combination stress tests). The stress tests are performed monthly and reported to Assets & Liabilities Committee to allow them to confirm the Liquidity Policy remains appropriate.

The Society's liquid resources comprise high quality liquid assets, including a Bank of England Reserve Account, certificates of deposit and term deposits, supplemented by an amount of UK Government Treasury Bills purchased by the Society. At the end of the year the ratio of liquid assets to shares and deposit liabilities was 22.50% (2020: 19.88%).



# Notes to the Accounts

Continued

The following tables on pages 64 and 65 analyse the Society's assets and liabilities into residual maturity groupings, based on the remaining period to contractual maturity at the Statement of Financial Position date. This is not representative of the Society's management of liquidity, furthermore loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain in the Statement of Financial Position much longer.

29. Financial instruments continued	Group						Total
	Residual maturity as at 31 August 2022	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>							
<b>Liquid assets</b>							
Cash in hand and balances with Bank of England	76,495	-	-	-	-	-	76,495
Loans and advances to credit institutions	6,242	501	1,001	-	-	-	7,744
Debt securities	-	15,028	6,997	15,980	-	-	38,005
<b>Total liquid assets</b>	<b>82,737</b>	<b>15,529</b>	<b>7,998</b>	<b>15,980</b>	<b>-</b>	<b>-</b>	<b>122,244</b>
Derivative financial instruments	-	-	-	-	-	4,643	4,643
Loans and advances to customers	1,644	285	4,807	18,197	317,539	(4,980)	337,492
Tangible assets	-	-	-	-	-	2,501	2,501
Intangible assets	-	-	-	-	-	2,954	2,954
Other assets	-	-	-	-	-	665	665
<b>Total assets</b>	<b>84,381</b>	<b>15,814</b>	<b>12,805</b>	<b>34,177</b>	<b>317,539</b>	<b>5,783</b>	<b>470,499</b>
<b>Financial liabilities and reserves</b>							
Shares	346,788	17,989	25,623	23,346	3,315	-	417,061
Amounts owed to credit institutions and other customers	22,100	-	-	-	-	-	22,100
Derivative financial instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	1,360	1,360
Reserves	-	-	-	-	-	29,978	29,978
<b>Total liabilities</b>	<b>368,888</b>	<b>17,989</b>	<b>25,623</b>	<b>23,346</b>	<b>3,315</b>	<b>31,338</b>	<b>470,499</b>
<b>Net liquidity gap</b>	<b>(284,507)</b>	<b>(2,175)</b>	<b>(12,818)</b>	<b>10,831</b>	<b>314,224</b>	<b>(25,555)</b>	<b>-</b>

There is no material difference between the maturity profile for the Group and that for the Society. All Group liquid assets are unencumbered as at the Statement of Financial Position date.



# Notes to the Accounts

Continued

29. Financial instruments continued		Group						Total
Residual maturity as at 31 August 2021	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non cash		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Financial assets								
Liquidity assets								
Cash in hand and balances with Bank of England	70,378	-	-	-	-	-	70,378	
Loans and advances to credit institutions	6,709	2,000	-	-	-	-	8,709	
Debt securities	-	8,006	11,999	-	-	-	20,005	
Total liquidity assets	77,087	10,006	11,999	-	-	-	99,092	
Derivative financial instruments	-	-	-	-	-	161	161	
Loans and advances to customers	6,912	3,607	10,374	58,335	288,861	(1,483)	366,606	
Tangible assets	-	-	-	-	-	2,596	2,596	
Intangible assets	-	-	-	-	-	1,935	1,935	
Other assets	-	-	-	-	-	650	650	
Total assets	83,999	13,613	22,373	58,335	288,861	3,859	471,040	
Financial liabilities and reserves								
Shares	340,547	20,837	17,007	32,515	4,301	-	415,207	
Amounts owed to credit institutions and other customers	20,062	1,253	3,907	-	-	-	25,222	
Derivative financial instruments	-	-	-	-	-	438	438	
Other liabilities	-	-	-	-	-	724	724	
Reserves	-	-	-	-	-	29,449	29,449	
Total liabilities	360,609	22,090	20,914	32,515	4,301	30,611	471,040	
Net liquidity gap	<b>(276,610)</b>	<b>(8,477)</b>	<b>1,459</b>	<b>25,820</b>	<b>284,560</b>	<b>(26,752)</b>	-	

There is no material difference between the maturity profile for the Group and that for the Society. All Group liquid assets are unencumbered as at the Statement of Financial Position date.

# Notes to the Accounts

## Continued

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

29. Financial instruments continued	Group						Total
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non cash	
As at 31 August 2022	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities							
Shares	346,548	17,935	25,643	23,750	3,717	-	417,593
Amounts owed to credit institutions and other customers	22,100	-	-	-	-	-	22,100
<b>Total liabilities</b>	<b>368,648</b>	<b>17,935</b>	<b>25,643</b>	<b>23,750</b>	<b>3,717</b>	<b>-</b>	<b>439,693</b>

29. Financial instruments continued	Group						Total
	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Non cash	
As at 31 August 2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities							
Shares	340,369	20,735	17,021	32,943	4,745	-	415,813
Amounts owed to credit institutions and other customers	20,062	1,253	3,907	-	-	-	25,222
Derivative financial instruments	-	-	-	-	-	438	438
<b>Total liabilities</b>	<b>360,431</b>	<b>21,988</b>	<b>20,928</b>	<b>32,943</b>	<b>4,745</b>	<b>438</b>	<b>441,473</b>

The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the Statement of Financial Position date.

The derivative financial instrument cash flows include the payable leg of all interest rate swap derivatives held by the Group and Society at the Statement of Financial Position date.

# Notes to the Accounts

Continued

The Society only uses derivatives for interest rate risk management purposes, it does not use derivatives for speculative trading purposes. A fair value hedge is used to hedge exposures to variability in the fair value of the Society's fixed rate mortgages. Derivatives are initially recognised at fair value on the date at which a derivative contract is entered into, and are subsequently re-measured at its fair value at each reporting period. Fair values of derivatives are calculated by using discounted cash flow models using yield curves that are based on observable market data, an Asset arises when the fair value is positive and a liabilities when the fair value is negative. The fair values of the Society's derivatives are as follows:

## 29. Financial instruments continued

Assets	Liabilities	Assets	Liabilities
2022	2022	2021	2021
£'000	£'000	£'000	£'000
4,643	-	161	438

All derivatives entered into by the Society are for the purposes of providing an economic hedge. Hedge accounting is an optional accounting policy, but its use must be in accordance with the specific rules and conditions in IAS39. The Society pays fixed and receives SONIA on all of its derivatives as at 31 August 2022.

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provided targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9 and were effective for periods beginning on or after 1 January 2020. Under the reforms LIBOR would not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform).

In light of the above, the Society transitioned from LIBOR to SONIA based derivatives during 2021, successfully reducing the LIBOR exposure to £nil by 31 December 2021.

## 30. Subsequent Events

The Board are not aware of any subsequent events arising after the year ended 31 August 2022 that require inclusion in the annual accounts. However, it is noted that the current fast moving political macroeconomic environment, particularly with respect to the cost of living crisis requires ongoing assessment, and has the potential to significantly impact the assets, revenue and ultimately Society as a whole.

However, whilst not required inclusion in the financial statements, it is noted that the Board are currently assessing the sale of off balance sheet assets of the wholly owned subsidiary HFS ( i.e. future income streams of assets under management). It is expected the sale is to take place within the coming year if approved.

# Annual Business Statement

Statutory Percentages	2022	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	1.54	25
Proportion of shares and deposits not in the form of shares held by individuals (the 'funding limit')	5.03	50

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

Business assets are the total assets of the Group as shown in the Statement of Financial Position plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for bad and doubtful debts.

Other Percentages	Ratio as at	
	2022	2021
	%	%
Gross capital as a percentage of shares and borrowings	6.83	6.69
Free capital as a percentage of shares and borrowings	5.61	5.68
Liquid assets as a percentage of shares and borrowings	27.84	22.50
As a percentage of mean assets:		
Profit after taxation	0.15	0.14
Management Expenses	1.50	1.34

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

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents general reserves.
- 'Free capital' represents the aggregate of gross capital and collective loan loss impairment provision for bad and doubtful debts less tangible and intangible fixed assets.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.
- 'Cost/income' represents the aggregate of administration expenses, depreciation and amortisation expressed as a percentage of total income less other operating charges.

# Annual Business Statement

Continued

## Information Relating to the Directors at 31 August 2022

Name	Occupation	Date of Birth	Date of Appointment	Directorships
N. M. Jordan	Society's Chair	01/04/1960	01/05/2018	Bank of America Merrill Lynch International DAC Hanley Financial Services Nordisk Renting AB
R. I. Henley	Director	26/01/1958	01/01/2020	-
A. S. Macdonald	Consultant	20/10/1954	01/09/2014	Non-Newtonian Hospitality Limited Sempre Ski Limited
L. Payne AGMA, CGMA	Society's Finance Director	19/10/1988	18/06/2019	-
M. E. Selby BA, MBA	Society's Chief Executive	30/08/1969	14/11/2016	Hanley Financial Services Limited
R. M. Young MIPA	Company Director and Consultant	20/12/1953	05/05/2017	Caverswall Park Developments Limited Caverswall Park Management Company Limited
G. M. Davidson	Director	06/05/1965	26/07/2022	Wrendale Consulting Limited

Documents may be served on the above named Directors at the Society's Head Office, Granville House, Festival Park, Hanley, Stoke-on-Trent, ST1 5TB

## Service Contracts

Mr M. E. Selby & Mrs L. Payne are employed under a contract that is terminable by either the Society or the Director on 6 months' notice.

## Officers

Name	Occupation	Directorships
L. Carter LLB (Hons)	Head of Operations	-
A. Guy Dip (Comp), MICA	Head of Risk	-
J. Jones BA (Hons)	Head of Finance	-
D. Lownds BSc (Hons), MSc	Head of Sales, Marketing & Business Development	-
L. Olszewski Assoc CIPD	Head of HR	-
T. A. Ratcliffe	Head of Member Services	-

The Officers of the Society are referred to as Senior Managers and, along with the Executive Directors, constitute the Leadership Team.



@HanleyEconomic



@HanleyEconomic



[linkedin.com/company/hanley-economic/](https://www.linkedin.com/company/hanley-economic/)

**Registered Head Office:**

Granville House, Festival Park, Hanley, Stoke-on-Trent, ST1 5TB

**Tel:** (01782) 255000

**Email:** [customerservices@thehanley.co.uk](mailto:customerservices@thehanley.co.uk)

**[www.thehanley.co.uk](http://www.thehanley.co.uk)**

**Branches at Biddulph, Cheadle, Festival Park, Longton, Newcastle, Stone and Hanley City Centre**