



Hanley
ECONOMIC
Building Society

**Annual Report
&
Accounts
2021**

for the year ended 31 August 2021



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

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Register No. 248B

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: www.thehanley.co.uk

Chairman's Statement

Welcome to the 2021 Annual Report and Accounts for Hanley Economic Building Society, which we hope you will find informative and helpful to understand what your Society does, how it goes about its activities, the outcomes for the last year and the prospects for the year ahead.

This time last year, I suspect that very few of us would have envisaged both the length and continuing impact of the subsequent waves of the COVID-19 pandemic, or indeed the speed and effectiveness of the UK's vaccination programme. Inevitably, therefore we should frame our analysis of the last year at Hanley Economic in that context. However I am equally very pleased to report that your Society has performed strongly throughout this extraordinary period and remains in robust financial health.



You may recall that we advised you last year that, having taken advice from professional consultants and using a rigorous selection process, your Board had agreed that it was now time to embark on a highly significant and ambitious project to replace our core underlying operating platform. The objective is to position us with the ability to offer our range of services in a contemporary way with online capability to meet the needs of both our existing members as well as to appeal to a wider range of future new Members – but without losing the traditional, tried and trusted ways of providing you with the services you require. I am pleased to report that the project is progressing well, and we are keen to demonstrate to you over the coming months the new functionality of the system – more news to follow! In anticipation of the work required of our colleagues to develop, test and bring into use the new system, we had planned to undertake a lower level of business this year and accordingly forecast a lower net profit to be built into our budget expectations, whilst still remaining very much open for business for our Members. In the event, even while working incredibly hard on our new system, your Society has exceeded those expectations, and has returned a good set of results, that are set out in more detail later in this report.

"I would like to record our thanks to you, the Members of Hanley Economic for your continuing support and loyalty"

So under normal circumstances, this would have been a very busy year, but layering on top of this the effects of the continuing pandemic, I would like to pay tribute to all our colleagues who have worked so hard to ensure our branches have remained open, that where our Members needed help as a result of the consequences of the pandemic, we did all we could to assist, and whilst also ensuring our lending and savings were competitive and available throughout to all who wished to make use of them. The Board is deeply appreciative of all the efforts of every colleague, many of whom we know have had the wider impacts of the pandemic to deal with in their

personal lives as well as when working, and we hope we can look forward to the year ahead with a positive perspective, and as ever, staying true to our values as a regionally based mutual building society operating in the interests of our members and the communities in which they live.

And finally, therefore, on behalf of the Board, I would like to record our thanks to you, the Members of Hanley Economic for your continuing support and loyalty through a period which we know has been difficult at best for so many, and hope very sincerely that we can anticipate a better year ahead for us all.

Nick Jordan
Chairman
2 November 2021

Chief Executive's Business Review



An Unprecedented Year

The first thing to acknowledge about this year is our incredible team at Hanley Economic. The support and commitment of all my colleagues has been exceptional and the whole Board and I are very grateful. Against a backdrop of extraordinarily demanding circumstances the team have achieved an outstanding commercial performance whilst maintaining service for Members throughout the pandemic.

This year was always going to be challenging. We had already begun a complete upgrade of our core systems just before the pandemic. Members may remember that the core of our existing core banking system dates back twenty five years and an upgrade was overdue. The combined impact of the project and the pandemic resulted in significant operational challenges.

We had to run the business alongside executing a large change program. We had to do all of this through a series of lockdowns, and an immediate transition to home working. At all times our priority was the health and safety of our colleagues. We also worked hard to protect Members and ensure service was maintained. Fortunately, the investment we had made in technology over the previous two years meant we were well placed to cope with remote working and video conferencing.

Despite all the operational challenges, the team have managed to protect our service with minimal disruption and make great progress with the systems transition. We have minimised branch closures and although we have operated on restricted opening hours, we have maintained a branch service. In February 2021 we migrated all our savings accounts to the new system. We expect e-banking and a new mobile phone app to launch shortly. Finally to fully migrate all mortgages by early 2022.

Operational Financial Performance – Success, Despite the Challenges

In setting the 2021 budget the Board acknowledged our existing financial strength, the context of a post-Brexit economy, the pandemic and our systems transition. However, despite the challenging trading environment brought about by these external and internal factors, the team delivered an impressive performance, exceeding all income and lending key targets.

In addition the conservative budget, through the year the Society also sought to utilise this transitional period to bring about more positive change that will provide Members increased security and performance in the future, albeit with some sacrifice in the current year. Although we deliberately slowed mortgage growth this year, underlying total asset growth in 2021 was 4.39%. However, given the Society's strength of liquidity, the Board decided to make an early and full repayment to the Bank of England's Term Funding Scheme. This outflow then reduced headline growth to 1.17%. The Society also took the opportunity to sell some ageing legacy property portfolios draining resource and capital, decreasing profit in the year by £0.3m, but providing a springboard for a stronger future.

Legacy Loan Portfolio – Strong Progress

Long standing Members will know the Society owns a number of properties that had to be taken into possession after the Global Banking Crisis of 2008. Prior to the crisis, the Society began lending to developers of residential properties. A large proportion of those loans proved problematic and a number of portfolios were ultimately taken into possession.

Since then, the Society's management has managed these as a landlord. More recently, as the buildings aged and the costs of maintenance increased we took the opportunity to sell these properties to achieve best value for Members. In the future, as the remainder gradually cost more to manage and interest rates inevitably rise, they will become a greater negative impact on margin, management time and financial risk. For these reasons, and with a healthy property market, the Board took the opportunity to sell more of these portfolios. While this protects the longer term future of the Society, it does have an inevitable short term impact on profit. The Board concluded that the longer term benefit of divesting these properties far outweighs the short term impact. The financial success of the last five years now means we can comfortably absorb the consequences of these loans and enable the Society to move on with a healthier, cleaner balance sheet.

Leading Employer

Our financial strength has also meant that we did not need to access the Furlough Scheme, cut jobs or reduce colleagues' working hours. We were also able to award all staff a pay-rise for the coming year.

Chief Executive's Business Review

Continued

We were thrilled to achieve a top-fifty place in the Sunday Times Best Companies survey this year in our category, finishing at number 11 in all Financial Services firms in the UK. To be an outstanding employer is a key objective for the Board. Not only does it support commercial success but more importantly it aligns with our values as a mutually owned business. Most of our colleagues are also Members. Despite the pandemic we have continued to invest in training and development. This included degrees at local universities, courses on basic Microsoft skills (through the local Chamber of Commerce) and supporting our apprentices in Finance. The entire Leadership Team have completed training in Diversity and Inclusion. The Board have also received training on cyber risk.

Key Performance Indicators	2021	2020	2019	Movement
	(£'000)	(£'000)	(£'000)	%
Operating Profit	769	833	855	(7.74%)
Profit after tax	664	737	700	(9.91%)
Liquidity	99,092	86,439	87,028	14.64%
Mortgage balances	366,606	375,253	355,974	(2.30%)
Retail savings	415,207	395,019	375,086	5.11%
Reserves	29,449	28,815	28,056	2.20%

Investing for the Future – Technology

Our strategy to invest in technology has continued. Having upgraded our out-of-date network in 2019, we have moved onto replacing the core banking system which – at its core – is more than 25 years old. Significant system transformations are always difficult and generally take longer than first planned. The new system will eventually offer the same services as now, but in addition, the Society will also be able to offer online banking, a mobile phone application and online mortgage applications for mortgage brokers. This is a significant, complex project for the team and probably the biggest transformation in the Society's history. We have made good progress in 2021 and hope to complete the project by early 2022.

Supporting our Community

The restrictions associated with the Coronavirus pandemic have limited the ways in which we have been able to support our local charities. We have continued to support Alice, Dougie Mac, Glow and YMCA with our Charity Saver Account which has grown by over £1.5m this year – which will mean nearly a £10,000 donation will be shared amongst our four partners. The Dougie Mac Saver continues to contribute to the hospice – this year we will donate over £32,000. Despite the lock-down colleagues have supported our community with:

- Donation of £1,500 to GLOW for purchasing Summer Experiences for Children to create a happy memory;
- Donation to Alice Charity to provide meals for disadvantaged children during the Winter half-term;
- ASDA Green Token Scheme - Alice Charity have been nominated as one of 3 charities to receive a donation from Asda Tunstall. The winner receives £500 and the runners up receive £200 each;
- Hanley Lucky Draw – Monthly staff lottery with 50% of funds raised donated to our partner Charities.

We hope to re-start some of the bigger events and volunteering when the circumstances allow.

Outlook

The government's Furlough Scheme ended in September 2021, which may impact negatively on unemployment and the economy itself in the near future. The Bank of England have been relatively upbeat in their forecasts, expecting GDP to recover to pre-pandemic levels by the end of 2021. However, there is still significant risk in the economy and the housing market.

All our plans assume a relatively benign economic outlook and the completion of our core banking systems transformation – although this will extend into 2022. Next year's budget will reflect the significant operational challenges we anticipate and a degree of risk in the economy. As the staff at the Society ensure the new core system delivery is smooth and delivers tangible benefit to Members or prospective customers, the Board acknowledge the need to be conservative with ambition, particularly on mortgage growth and the required technological investment, whilst keeping mutuality at the forefront of their strategy. Beyond next year, I would expect the new core system to be supporting growth and even stronger financial results. If the economy remains stable, we would expect the investment in technology to repay itself within five years.

Whatever the challenges of 2022, you can be assured that the Board and all the team at Hanley Economic Building Society will continue to provide the service and support our Members have enjoyed for 167 years.

Mark Selby
Chief Executive
2 November 2021

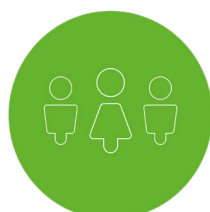
Strategic Business Review

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 2021.

Business strategy and objectives

The Board has developed a strategy to deliver its vision to be 'the chosen provider of savings and mortgages within our heartland, built on trusted values and exceptional service.

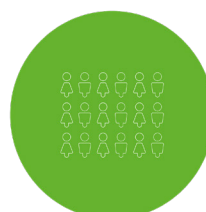
We value...



The support of our Members

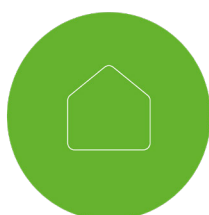


The commitment, loyalty and continued development of our staff

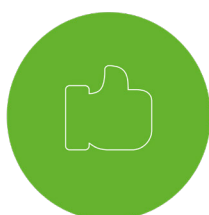


The diversity that mutuality brings to the financial services market

We are dedicated to...



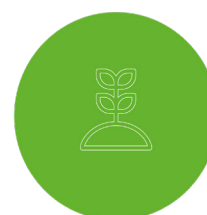
Promoting savings and home ownership



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 sustained growth in both savings and mortgages, together with a positive contribution to the Society's capital base.

Key Performance Indicators	2021	2020	2019
Total Assets (£'000)	471,040	465,602	446,974
Asset Growth	1.17%	4.17%	4.86%
New Mortgage Lending (£'000)	69,028	93,632	96,132
Mortgage Growth	(2.30%)	5.42%	8.69%
Retail Shares Balance net increase / (decrease) (£'000)	20,188	19,933	31,608
Total Retail Shares and Deposit Growth	5.32%	4.38%	8.29%
Post-tax profit (£'000)	664	737	700
Gross Capital (% of shares and deposit liabilities)	6.69%	6.63%	6.72%
Free Capital (% of shares and deposit liabilities)	5.68%	6.01%	6.12%
Liquid Assets (% of shares and deposit liabilities)	22.50%	19.88%	20.86%
Management Expenses (% of mean total assets)	1.34%	1.19%	1.15%

Strategic Business Review

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Assets

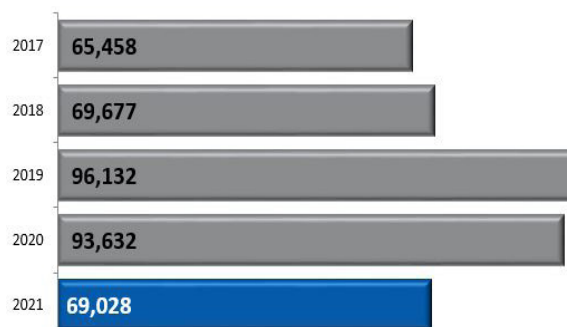
Total assets have increased by 1.17% (2020: 4.17%) from £465.60m at the end of 2020, up to £471.04m at the end of 2021. This was achieved by solid growth in retail savings balances of £20.19m and consequently liquidity. The Society also repaid £15.00m of Bank of England ('TFS') borrowings during the year ahead of schedule as a result of the strong liquidity position.

The Society, as a mutual, considers the growth in its assets as a key objective in its future, specifically that, in order to ensure a sustainable growth model, the growth in assets must be proportionate to the growth in capital.

Lending

Mortgage balances have decreased by £8.64m in the year to £366.61m (2020: £375.25m), with gross lending (the total value of all new mortgage advances) of £69.03m (2020: £93.63m). Lending has been consciously reduced as the Society focuses 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 67.32% of the total advanced over the financial year (2020: 81.27%). The remaining 32.68% (2020: 18.73%) has been secured against residential buy to let or self-build properties, with the shift year on year again as a result of the deliberate slowing of advances but desire to maintain a presence in the specialised lending arenas such as self-build. Redemptions in the year were £60.54m (2020: £61.78m), indicative of the strong retention of Members reaching the end of their incentivised product period during a turbulent economic year.

The Society continues to innovate in regards to mortgage products, receiving accolades throughout the year 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 intermediary is also recognised, with 54.11% (2020: 69.83%) of advances sourced through brokers. The Society's exposure to residential properties by way of mortgages is 98.00% (2020: 96.31%).



Included in loans secured on residential property are a total of 5 cases (2020: 10), with a balance outstanding of £7.07m (2020: £14.03m), all of which are either in possession or under management by a Law of Property Act Receiver. Although these cases have experienced previous financial difficulty, each has now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream. As at 31 August 2021 total specific impairment provisions of £2.14m (2020: £5.10m) are held against these exposures. As part of the Society's strategy to dispose of loans under possession when a commercially viable offer is received, loans of £7.07m were disposed of during the year equating to a loss of £314k after the utilisation of the existing impairment provisions held against these loans. These legacy loans were typically originated over a decade ago, with the loss incurred deemed reasonable given the ongoing management, maintenance and legal expenses of the properties.

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 2021 there were 0 cases (2020: 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 3.92% (2020: 4.83%).

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 2021, there were 9 cases (2020: 5) under forbearance measures with total balances of £3.58m (2020: £0.68m) and arrears totalling £1.92k (2020: £7.64k). 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.

Strategic Business Review

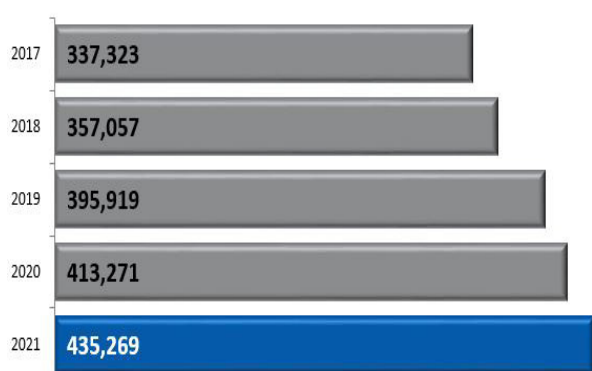
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The main options offered by the Society include: temporary transfer to an interest only mortgage; reduced monthly payment; product review; and the extension of mortgage term. During the year the Society has also offered payment holidays temporarily as a result of government guidance.

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 £415.21m by the Statement of Financial Position date (2020: £395.02m). Savings balances from individuals accounted for 94.27% (2020: 90.87%) of our total funding, and has been driven through the Society's commitment to providing competitive rates of interest relative to highstreet peers to its Members, in conjunction with its well established branch network.



Alongside retail savings the Society maintains retail deposits with small and medium size companies of £20.06m (2020: £18.25m), and a modest level of wholesale funding from building societies and local authorities of £5.16m (2020: £6.43m). The Society repaid the £15.00m exposure to central bank term funding schemes ('TFS').

The Board remains committed to their 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 in a competitive low interest rate environment and also with respect to the evolving macroeconomic climate in light of COVID-19 and potential impact on customer behaviour.

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 is a contributing factor to the increase in net margin during the year.

Net interest margin of 1.46% (2020: 1.33%) has increased during the year also supported by retail fixed bonds repricing following the 0.65% fall in the Bank of England Base rate. The Society passed on the decrease in full where product terms and conditions allowed in the financial year to 31 August 2020, to both mortgage and savings customers, however acknowledges the significant and sustained decrease in liquidity yield from its Bank of England Reserve Account and debt securities.

The Society continues to experience significant competition for mortgage business. Our determination to offer our Members competitive deals in line with the market meant that we reduced rates and fees on new lending, and also sought to reward the loyalty of our existing borrowers by reducing the rates we offer to those switching products. Our savings rates continue to be competitively positioned in the market as we try to protect our Members from the full impact of the historically low interest rate environment.

Going forward the interest margin pressure the Society has experienced over this financial year is likely to continue, if not increase. Competition in the prime residential lending arena will only heighten; forcing mortgage margins lower, particularly with the uncertainty remaining around Brexit and long term impact of COVID-19. 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 2021 of £29.45m (2020: £28.81m) grew by 2.20%, sourced from retained profits for the year of £0.66m.

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 6.69% (2020: 6.63%) and free capital was 5.68% (2020: 6.01%). The Group continues to maintain a strong capital position despite seeing a fall in the free capital ratio as a

Strategic Business Review

Continued

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 17.20% (2020: 16.16%) and the Leverage ratio (unaudited) stood at 6.05% (2020: 5.73%). Tier 1 Capital was £28.84m (2020: £27.08m) and Tier 2 Capital £0.10m (2020: £0.36m), providing total Capital resources of £28.94m (2020: £27.44m).

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 approve the ICAAP on an annual basis, and it is reviewed by the PRA in setting the Society's capital requirements as Total Capital Requirement (TCR). Regulatory Capital held by the Society at the Statement of Financial Position date was £20.87m, 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.



Liquidity

The Society held total liquidity of £99.09m (2020: £86.44m) representing 22.50% (2020: 19.88%) of shares and deposit liabilities as at the year end. Total liquidity balances include £70.00m (2020: £57.51m) deposited with the Bank of England's Reserve Account and £6.00m (2020: £17.00m) in respect of Treasury Bills. All of these investments are deemed as high quality liquid assets and qualify 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.

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. Despite a fall in liquidity levels 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 £0.66m (2020: £0.74m) 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 0.14% (2020: 0.16%).

The 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 incoming core system transition as part of project 'Capstone' will have a material impact upon management expenses in the short to medium term. Historically low interest rates will also potentially hinder profitability, with expectations subdued due to the developing economic impact of COVID-19 and inflation considerations in economic recovery.

Strategic Business Review

Continued

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 and contemporising our brand, 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 £5.99m (2020: £5.25m) principally as a result of the continuation of project 'Capstone' and the associated investment in IT infrastructure. Cost pressures have also arisen due to a combination of general inflationary pressures 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 1.34% (2020: 1.19%) supported through the 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.

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 Customer Forum is held on a regular basis to seek Member feedback.

Risk management report

Risk management and governance arrangements provide processes for identifying and managing all 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 in the course of 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. In particular, 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, 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 and includes any course of action that will contribute or could reasonably be anticipated.

Financial risk management

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

Strategic Business Review

Continued

Risk management framework

The Society's risk management framework comprises five elements:

1. 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 in order to achieve strategic goals. This approach has been disseminated by the Board throughout the Society, thereby clearly communicating 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 established a requirement that the Society should 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.

2. Board committee structures overseeing the risk management and internal control framework

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

3. 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.

4. Appropriate management information

Management information is provided to the Board and relevant committees 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.

5. Continuous process of risk assessment

It is important that the Society has the ability to 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.

Third line of defence

Internal Audit provide the third line of defence providing the Audit & Compliance Committee and Board with comprehensive assurance

Strategic Business Review

Continued

based on a level of independence and objectivity which is not available in the second line of defence.

Review of risks and internal controls

The Committee reviewed and discussed 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

These have been reviewed and revised to help keep them measurable and relevant.

Emerging risks

A standing agenda item whereby the Risk 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 e.g. Climate Change and COVID-19 but clearly there is the potential for changes to arise which would have greater impact upon the Society's strategy.

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. Hanley Economic, like all businesses, faces a number of 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 which makes recommendations to the Board on changes in any of its related policies.

Mortgage credit risk is managed through the Society's underwriting process which seeks to ensure that customers can afford to repay their debt. All mortgage applications are rigorously assessed with reference to the Society's Lending Policy. Changes to policy are approved by the Board following reviews by the Credit Risk Committee, and challenged 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 payment holidays as prescribed by the regulator during the recent COVID-19 pandemic.

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.

However, determining the appropriateness of impairment losses for such long term approaches is judgemental and requires the Society to make a number of assumptions. The preparation of the Society's financial statements in accordance with FRS102 (previous 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.

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.

Strategic Business Review

Continued

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 on a monthly basis. The interest rate sensitivity exposure of the Group is set out in Note 30 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 the 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. In light of the increasing regulatory demands faced by the sector the Board is alert to the potential increase posed by regulatory risk.

Brexit

Now that the UK has left the EU, there is continued political and economic uncertainty, specifically the potential impact on the housing market. The sector consensus appears to be that the effects will differ regionally, with London and the South East likely to experience the biggest impact, albeit a less severe impact than that of the 2008 financial crisis.

In the short term, the implications for increased employee costs could be subject to change given the current labour shortage and demand for a change in working practices following COVID-19. There are no links or implications regarding salary costs if the pound drops in value as there are no salaries paid in currencies other than sterling.

The key is to ensure we retain staff, which includes investment in training and employee support through maintaining a positive culture as a place to work.

The Board has considered the potential impacts of Brexit and has reviewed relevant stress tests. This exercise determined that the Society is well positioned to manage the outcome and that our contingency plans will minimise adverse outcomes.

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 its 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.

Strategic Business Review

Continued

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.

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 or to 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 in place the Financial Crime Policy with the board risk appetite and regular reporting framework in place providing clarity and visibility to effectiveness of controls in place. In addition, on an annual basis the Money Laundering Reporting Officer provides a report to the ACC on effectiveness of the framework in place.

Technology risk

It 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 business and may prevent compliance with regulations, impact profitability and damage the Society's reputation in the marketplace and attract regulatory fines and legal proceedings from members and third parties.

It also includes model risk that is the potential loss the Society may incur, as a consequence of decisions that could be principally based on the output of internal models used under any of the internal approaches, due to errors in the development, implementation or use of such models.

The Society have in place IT strategy and Model Risk policy in place with updates provided to Leadership Operational Committee and Leadership Risk Committee with the Risk Committee and the Audit and Compliance Committee providing a challenge on behalf of the board.

IT and information security

The Society continues to invest in its technology infrastructure, so that it can maintain and develop services suitable for the evolving needs and expectations of Members in the financial services markets in which it operates. The core banking system project continues with the Savings platform now live and the Lending element underway. The new system has enabled the Society to offer a more functional Online Banking portal including a Mobile App for our Members.

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. In 2022 the Society will be investing in further 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 Society will report against 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 back book, to ensure the suppliers we use are considerate of their impact on climate change and to reduce our own emissions.

- Strategy

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 2021-2024 roadmap.

Strategic Business Review

Continued

- Risk management

Climate change risks are classified as physical and transitional risks.

	Physical risk	Transitional risk
Definition	Arise from a number of factors and are related to specific weather events (such as flooding, heatwaves, wildfires and storms). Longer term risks are changes in precipitation, extreme weather variability, sea level rise and rising mean temperatures.	Arise from the process of adjustment to a low carbon economy. A range of factors can affect this such as climate related policy and regulatory developments, emergence of disruptive technology or business models and shifting sentiment and societal preferences.
Society considerations	Consideration of properties located within flood risk areas. Review of the EPC ratings of the mortgage back book.	Regulatory and policy developments, such as ensuring borrowers' energy efficiency standards are maintained or improved, resulting in increased costs that could impact investment viability. Consideration of third party suppliers used and their impact on climate change.

- 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 EPC ratings is currently being considered and a risk appetite will be defined and reported against.

Charitable and political donations

The Society's Charity Saver Account and the historic Douglas Macmillan Account had balances totalling £3.6m at the Statement of Financial Position date. Donations of £48k (2020: £39k) 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. This volunteering is expected to re-commence when pandemic restrictions allow.

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 the exceptional circumstances of the past year, which is so essential to the ongoing success of Hanley Economic and for the benefit of the communities in which we operate.

Acknowledgement

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.

On behalf of the Board

N. M. Jordan
Chairman

2 November 2021

Directors' Report

for the year ended 31 August 2021

Directors

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

Non-Executive Directors

N. M. Jordan (Chairman)

R. I. Henley

A. S. Macdonald

E. Whitfield

S. Woodings LLB

R. M. Young MIPA

Executive Directors

M. E. Selby BA, MBA (Chief Executive)

L. Payne ACMA, CGMA (Finance Director)

Mr A. S. Macdonald and Mr N. M. Jordan both retire by rotation in accordance with the Society's rule 26(1) and being eligible offer themselves for re-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 Strategic Business Review on pages 5 to 14 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 2024. 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 COVID-19 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. For this reason, the accounts continue to be prepared on a going concern basis.

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

At the Annual General Meeting held on 15 December 2020, a resolution to re-appoint KPMG LLP as External Auditor to the Society was passed. KPMG were at the end of their three year tender with the Society and presented a change of strategy following directions from the regulator. The proposed KPMG contract demonstrated an increase in costs resulting in the Board proceeding with a tender process, following which Mazars were awarded the contract as they were more aligned to our future strategic goals. A resolution to appoint Mazars as External Auditor to the Society will be proposed at the Annual General Meeting 2021.

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
Chairman

2 November 2021

Directors' Profiles

Non-Executive Directors

Ian Henley

Ian joined the Board in January 2020 as a Non-Executive Director and formally took up his role as Chairman 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.

Nick Jordan

Nick was appointed to the Board as Chairman 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 their non-executive board directorships. Nick is married with two grown up children.

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 both the Remuneration Committee and 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, Skipton 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.

Liz Whitfield

Liz joined the Board as a Non-Executive Director in May 2020 and is also a member of the Audit & Compliance Committee. She is a Chartered Accountant and specialised in Corporate Finance at KPMG and as a partner at RSM. In 2014, Liz founded Growth Plans Ltd, a coaching consultancy where she works with Directors and teams to grow leadership skills; improve team performance and work collaboratively with cross-industry peers. Liz is married with 2 grown-up children.

Directors' Profiles

Continued

Simon Woodings

Simon Woodings, joined the Board as a Non-Executive Director in April 2016 and is chair of the Remuneration Committee and served as a member of the Audit and Compliance Committee. Simon spent his career in a Stoke-on-Trent based law firm as a corporate/commercial lawyer becoming senior partner until joining his family's fire protection engineering business in October 2015. Simon lives in Staffordshire and is married with two children.

Bob Young

Bob Young, was co-opted the Board in May 2017 and his appointment was confirmed by Members at the AGM in December 2017. Bob is also a member of both the Assets and Liabilities Committee and the Audit and Compliance 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

Larne Payne

After initially working within the NHS, Larne joined the Society in 2012 as Financial Controller, qualifying as a 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 Committee and Audit Committee.

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.

Directors' Remuneration Report

Directors' Remuneration

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

The Remuneration Committee

The Committee is responsible for the remuneration policy for all Executive Directors of the Society, Senior Managers and the Chairman 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 Senior Team members

The Board's policy is to set remuneration levels which will attract and retain high calibre Executive Directors and Senior 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 takes into account the role and position of individuals including professional experience, responsibilities, job complexity and market conditions. Basic salary is reviewed annually.
- b) Pensions – which involves Hanley Economic 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 Senior 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 Chairman. The level of remuneration for non-executive Board members is set by the Chairman and the Chief Executive.

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

There are no bonus 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

Directors' Remuneration	Group and Society	
	2021	2020
Directors' emoluments:	£000	£000
For services as a Non-Executive Director	183	163
For Executive services	458	417
	<u>641</u>	<u>580</u>

Emoluments of the Society's Directors are listed below.

	2021	2020
Non-Executive Directors:	£000	£000
N. M. Jordan (Chairman)	44	43
R. I. Henley (from 1.1.2020)	28	18
A. S. Macdonald	31	31
V. Oak (to 31.12.2019)	-	9
E. Whitfield (from 1.5.2020)	26	8
S. Woodings	27	27
R. M. Young	27	27
	<u>183</u>	<u>163</u>

Executive Directors:					
	Salary	Benefits	Sub-total	Pension Contribution	Sub-total
	£000	£000	£000	£000	£000
2021					
M. E. Selby	230	58	288	29	317
L. Payne	103	25	128	13	141
	<u>333</u>	<u>83</u>	<u>416</u>	<u>42</u>	<u>458</u>
2020					
M. E. Selby	210	58	270	26	294
L. Payne	90	22	112	11	123
	<u>300</u>	<u>80</u>	<u>382</u>	<u>37</u>	<u>417</u>

S. Woodings
Chair of the Remuneration Committee
2 November 2021

Corporate Governance

Corporate Governance

Hanley Economic 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 Hanley Economic. 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 Chairman, five Non-Executive Directors and two Executive Directors.

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

The 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
- Robust financial and internal controls in place;
- Ensuring that the Society operates within its rules, the rules and guidance issued by the PRA and the FCA; and
- 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;
- Review of the effectiveness of the systems and controls; and
- Liquidity and Capital requirements.

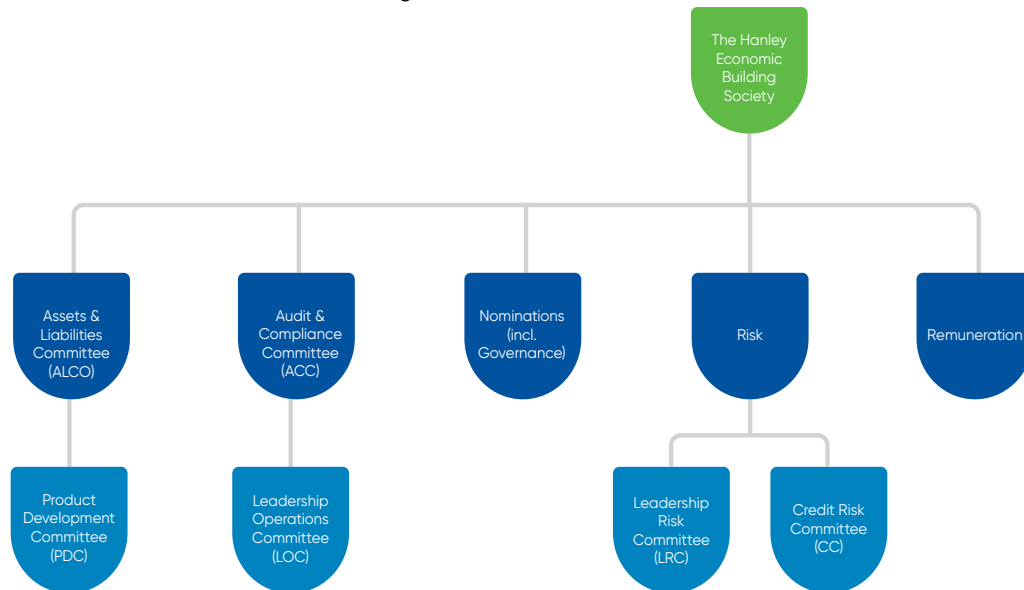


Corporate Governance

Continued

Board Committees

The Board has 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, funding and liquidity in accordance with the Society's policy. For the year to 31 August 2021 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 24 for further information). For the year to 31 August 2021 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 18 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 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, they evaluate the balance of skills, knowledge, experience, gender and diversity on the Board, and, in the light of this evaluation, prepare 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.

Corporate Governance

Continued

Board Committees continued

Attendance at Board and Committee meetings for the year to 31 August 2021 has been recorded as follows :

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

() = number of meetings eligible to attend

* = attended by invitation

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 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
- 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 2021. The Board considers that all individual directors, have sufficient time to discharge their duties at the Society and they do not 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 Hanley Economic.

Assessment of Directors

Performance and evaluation reviews are carried out for each Director on an annual basis by the Chairman with the Senior Independent Director carrying out a 360 degree review of the Chairman 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.

Corporate Governance

Continued

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 2021 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 have the opportunity to 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. The Society acknowledges the forthcoming AGM is to be held virtually, as temporarily allowable under COVID-19 regulation. Further information can be found on the Notice of AGM document.

For the year to 31 August 2021 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 Chairman 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 members.

The Board continues to monitor culture using a range of strategic risk assessment measures and receives update on culture. 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 2021 colleague survey demonstrated high colleague engagement, which helps to maintain a mutual culture and encourages appropriate behaviours throughout the business. The colleague survey also helps to provide 'culture temperature checks' for the Board during COVID-19 lock down and for plans on returning to work in the Head Office.

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 & Investment

Hanley Economic 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 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. The champion is also responsible for presenting an annual report on whistleblowing to the Board.

N. M. Jordan
Chairman

2 November 2021

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 Chairman provides an update to the Board on key matters discussed by the Committee.

The composition of the Committee is detailed on page 21. The Chief Executive, Finance Director and the Head of Risk attend the meeting by invitation. Representatives of PwC (internal auditor), KPMG LLP, (external auditor until 14 July 2021) and Mazars LLP (external auditor from 15 July 2021), 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 2021

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

1. 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 2021 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 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 2021 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 2021.

Audit & Compliance Committee Report

Continued

2. Internal Audit

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

In order 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. Single Customer Review (SCV), Financial Crime, LIBOR, Pillar 3 Disclosures, Project Capstone and Treasury).

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 fulfill the role.

3. 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 this aspect 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 2020 were:

- 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 a number of ways including internal communications and training modules.

The information received and considered by the Committee provided reasonable assurance that during 2020, 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 auditor partner responsible for the Society's audit at least every five years.

Audit & Compliance Committee Report

Continued

4. 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 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.

KPMG were at the end of their three year tender with the Society and presented a change of strategy following directions from their regulator and in turn, were responding to issues in the Audit industry. The proposed KPMG contract demonstrated an increase in costs resulting in the Board proceeding with a tender process, following which Mazars were awarded the contract (with effect from 15 July 2021), as they were more aligned to our future strategic goals.

The Committee approved the fees for audit services for 2021 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.

5. 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.

Given the current political and economic uncertainty regarding Brexit and its subsequent impact, the Committee concluded that risk faced by the Society would be as a result of the wider impact on the UK economy. The Committee (and wider Board) are mindful of the potential impact of Brexit, particularly a hard Brexit, and are committed to monitoring relevant developments to the UK economy.

Furthermore, the Committee concluded that the long-term economic impact of COVID-19 remains a relative unknown, with the Society again subject to a perceived increase to risks as a result of movements in the UK economy and changes in government guidance. The Board and staff of the Society are committed to ongoing monitoring of the situation, from the perspective of business performance and stability but also remaining sympathetic and engaged with the customers affected.



A. S. Macdonald
Chair of the Audit & Compliance Committee
2 November 2021

Directors' Responsibilities

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

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
Chairman
2 November 2021

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 2021 which comprise the Group and Society Income Statement and Statement of Comprehensive Income, Group and Society Statement of Financial Position, Group and Society Statement of Changes in Members' Interests, 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 Society's affairs as at 31 August 2021 and of the Group's and Society's 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 FRC's 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 is appropriate.

Our audit procedures to evaluate the directors' assessment of the Group and 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 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 Society's future financial performance;
- Evaluating the Society's 3 years Budget, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their Going Concern assessment;
- Assessing and challenging key assumptions and mitigating actions put in place in response to COVID-19;
- 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.

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 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 period 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.

Independent Auditor's Report to the Members

Continued

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.

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 (refer to page 42, accounting policy and page 46 Annual Accounts disclosures)</p> <p>A loan loss provision is recognised when there is objective evidence of impairment.</p> <p>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 impairment losses has a high degree of estimation uncertainty in respect of future movements in property values, any forced sale discount that may need to be offered and the timing of disposals. 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 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>We performed the following procedures:</p> <ul style="list-style-type: none"> -Tested the design and the operating effectiveness, of the key controls that management had established, to review and challenge the appropriateness of key judgments and model governance; -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; -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; -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; -Developed an auditor's estimate of the collective provision incurred loss using assumptions relevant to the Society's portfolio; and -Performed credit file reviews on loans with specific characteristics for an impairment assessment. <p>Our observations</p> <p>Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be acceptable.</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	£292,340 for Group and Society
How we determined it	1% of Net Assets
Rationale for benchmark applied	We consider that net assets is the most appropriate benchmark to use for the Group and 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. Regulatory capital is a key benchmark for management and regulators although it not a statutory measure in the annual accounts. Therefore, we base our materiality calculation of net assets, which is a reasonable 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. Performance materiality of £175,400 was applied in the audit based on 60% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £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 Society, its 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:

Independent Auditor's Report to the Members

Continued

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:

	2021	2020 (predecessor auditor)
Number of reporting entities subject to full audit scope	1 of 3	3 of 3
% of group revenue	100%	100%
% of group profit before tax from continuing operations	97.53%	100%
% of group total assets	99.96%	100%

At the parent level we 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the annual accounts and our auditor's report thereon. Our opinion on the annual accounts 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.

Independent Auditor's Report to the Members

Continued

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 Society; or
- the 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 27, 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 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 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 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 Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the Annual Accounts.

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:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the industry in which it operates and considered the risk of acts by the Group and Society which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Group and Society's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. 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.

Independent Auditor's Report to the Members

Continued

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 such as opportunities for fraudulent manipulation of annual accounts, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions, and significant one-off or unusual transactions; 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 Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

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 periods. The period of total uninterrupted engagement is one year, covering the year ended 31 August 2021 .

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and Society and we remain independent of the Group and 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 and 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
2 November 2021

Income Statement and Statement of Comprehensive Income

For the year ended 31 August 2021

For the year ended 31 August 2021					
		Group	Group	Society	Society
		2021	2020	2021	2020
	Notes	£000	£000	£000	£000
Interest receivable and similar income	2	9,088	9,626	9,088	9,626
Interest payable and similar charges	3	(2,251)	(3,561)	(2,251)	(3,561)
		6,837	6,065	6,837	6,065
Fees and commissions receivable	4	314	341	127	153
Fees and commissions payable	5	(111)	(119)	(97)	(105)
Net gains / (losses) from derivative financial instruments	6	142	(128)	142	(128)
Total net income		7,182	6,159	7,009	5,985
Administrative expenses	7	(5,985)	(5,248)	(5,831)	(5,073)
Depreciation and amortisation	17/18	(313)	(174)	(313)	(174)
Other operating charges		(14)	(46)	(14)	(46)
Operating profit before impairment losses and provisions		870	691	851	692
Impairment (losses) / gains on loans and advances	9	(101)	142	(101)	142
Profit on ordinary activities before tax		769	833	750	834
Tax on profit on ordinary activities	10	(105)	(96)	(105)	(96)
Profit for the financial year	26	664	737	645	738

The notes on pages 38 to 69 form part of these financial statements.

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

		Group	Group	Society	Society
		2021	2020	2021	2020
	Notes	£000	£000	£000	£000
Profit for the financial year		664	737	645	738
Items that may be subsequently reclassified to the Income Statement					
Available for Sale Reserve	27	(31)	22	(31)	22
Tax on items that may be reclassified to the Income Statement	27	1	-	1	-
Other Comprehensive Income for the year net of tax		(30)	22	(30)	22
Total Comprehensive Income for the financial year		634	759	615	760

The notes on pages 38 to 69 form an integral part of these financial statements.

Statement of Financial Position

As at 31 August 2021

		Group 2021	Group 2020	Society 2021	Society 2020
ASSETS	Notes	£000	£000	£000	£000
Liquid Assets					
Cash in hand and balances with the Bank of England	11	70,378	57,961	70,378	57,961
Loan and advances to credit institutions	12	8,709	4,442	8,518	4,228
Treasury Bills	13	6,000	17,000	6,000	17,000
Debt Securities	13	14,005	7,036	14,005	7,036
		99,092	86,439	98,901	86,225
Derivative Financial Instruments	14	161	8	161	8
Loans and advances to customers	9/15	366,606	375,253	366,606	375,253
Investments in subsidiary undertakings	16	-	-	-	-
Tangible Fixed Assets	17	2,596	2,702	2,596	2,702
Intangible Fixed Assets	18	1,935	352	1,935	352
Other assets - taxation	25	424	616	424	616
Prepayments and accrued income	19	226	232	226	232
Total assets		471,040	465,602	470,849	465,388
LIABILITIES					
Shares	20	415,207	395,019	415,207	395,019
Amounts owed to credit institutions	21	-	17,253	-	17,253
Amounts owed to other customers	22	25,222	22,424	25,222	22,424
Derivative financial instruments	14	438	1,363	438	1,363
Other Liabilities	23	-	-	824	782
Accruals and deferred income	24	724	728	724	728
Total liabilities		441,591	436,787	442,415	437,569
Reserves					
General Reserves	26	29,464	28,800	28,449	27,804
Available for sale reserves	27	(15)	15	(15)	15
Total Reserves attribute to members of the society		29,449	28,815	28,434	27,819
Total liabilities and reserves		471,040	465,602	470,849	465,388

The notes on pages 38 to 69 form an integral part of these financial statements.

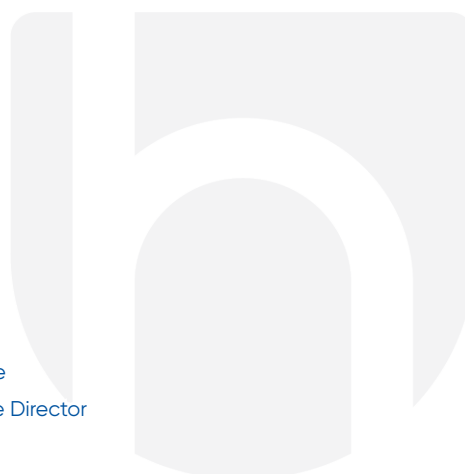
Approved by the Board of Directors

on 2 November 2021

N. M. Jordan
Chairman

M. E. Selby
Chief Executive & Group Secretary

L. Payne
Finance Director



Statement of Changes in Members' Interests

For the year ended 31 August 2021

	Notes	General Reserve	Available for Sale Reserve	Total
		£000	£000	£000
GROUP				
At 31 August 2019	26/27	28,063	(7)	28,056
Profit for the year		737	-	737
Net gains from changes in financial assets		-	22	22
At 31 August 2020	26/27	28,800	15	28,815
Profit for the year		664	-	664
Net losses from changes in financial assets		-	(30)	(30)
At 31 August 2021	26/27	29,464	(15)	29,449
SOCIETY				
At 31 August 2019	26/27	27,066	(7)	27,059
Profit for the year		738	-	738
Net gains from changes in financial assets		-	22	22
At 31 August 2020	26/27	27,804	15	27,819
Profit for the year		645	-	645
Net losses from changes in financial assets		-	(30)	(30)
At 31 August 2021	26/27	28,449	(15)	28,434

The notes on pages 38 to 69 form an integral part of these financial statements.



Statement of Cash Flow

For the year ended 31 August 2021

	Group	Group	Society	Society
	2021	2020	2021	2020
	£000	£000	£000	£000
Cash flows from operating activities				
Profit before tax	769	833	750	834
Depreciation and amortisation of fixed assets	313	174	313	174
(Increase)/ Decrease in fair value of derivative financial instruments & hedged items	(142)	128	(142)	128
Increase in effective interest rate adjustment	(113)	(466)	(113)	(466)
Loss on disposal of properties in possession	314	-	314	-
Impairment charge	101	(142)	101	(142)
Net losses on disposal and amortisation of debt securities	18	54	18	54
Total cashflow from operating activities	1,260	581	1,241	582
Changes in operating assets and liabilities				
Decrease / (increase) in loans and advances to customers	4,096	(18,176)	4,096	(18,176)
Decrease in accruals and deferred income	(4)	(250)	(4)	(250)
Decrease in prepayments and accrued income	6	379	6	379
(Decrease) / increase in amounts owed to credit institutions	(17,253)	1,233	(17,253)	1,233
Increase / (decrease) in amounts owed to other customers	2,798	(3,674)	2,798	(3,674)
(Increase) / decrease in loans and advances to credit institutions	(2,000)	1,003	(2,000)	1,003
Increase in other liabilities	-	-	42	251
Increase in shares	20,188	19,933	20,188	19,933
Cash received on sale of properties in possession	3,314	-	3,314	-
Taxation refunded	87	-	87	-
Net cash inflow/ (outflow) from operating activities	11,232	448	11,274	699
Cash flows from investing activities				
Purchase of tangible fixed assets	(44)	(256)	(44)	(256)
Purchase of intangible fixed assets	(1,746)	(327)	(1,746)	(327)
Purchase of debt securities	(26,000)	(42,469)	(26,000)	(42,469)
Maturities and disposal of debt securities	29,982	39,476	29,982	39,476
Net cash used in investing activities	2,192	(3,576)	2,192	(3,576)
Net increase/ (decrease) in cash and cash equivalents	14,684	(2,547)	14,707	(2,295)
Cash and cash equivalents at 1 September	62,403	64,950	62,189	64,484
Cash and cash equivalents at 31 August	77,087	62,403	76,896	62,189
Net cash generated from operating activities	14,684	(2,547)	14,707	(2,295)

The notes on pages 38 to 69 form an integral part of these financial statements.



Notes to the Accounts

1. Accounting policies

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), IAS 39 Financial Instruments: Recognition and Measurement (IAS39), 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, are 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 they continue 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. These accounts are made up to 31 August 2021. Unless otherwise stated, the acquisition method of accounting has been adopted. In the Society's accounts, investments in subsidiary undertakings are stated at the lower of cost and recoverable amount. Uniform accounting policies are applied throughout the Group.

Exemptions

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

Investments in subsidiary undertakings

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

Interest income and expense

Interest income and expense in respect of all financial assets is credited to the Income Statement as it becomes receivable, with 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.

Notes to the Accounts

Continued

1. Accounting policies (continued)

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 at amortised cost, including any effective interest rate adjustment, less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

b) Financial 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. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the Income Statement together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain/(losses) from derivative financial instruments.

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

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

c) Available for sale assets – debt securities

Available for sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They may be sold in response to needs for changes in liquidity or changes in interest rates. The Group's debt securities are classified as available-for-sale assets. The Group measures debt securities at fair value, with subsequent changes in fair value being recognised through the Statement of Comprehensive Income 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 30 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available-for-sale reserves and recycled to the Income Statement.

Notes to the Accounts

Continued

1. Accounting policies (continued)

d) Offsetting

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

e) Financial liabilities

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

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

FRS102 prohibits discounting of deferred tax.

Tangible fixed assets

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

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

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

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

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

Intangible assets

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

Notes to the Accounts

Continued

1. Accounting policies (continued)

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.

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

Notes to the Accounts

Continued

1. Accounting policies (continued)

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 a number of factors contributing to that view.

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

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

Pension costs

The Group contributes to personal pension plans of its staff. The Group's contributions are charged against profits in the year to which they relate. The charge to the Income 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

Notes to the Accounts

Continued

1. Accounting policies (continued)

payment and term extensions that correlate with defaults on assets in the Group.

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

The expected date of disposal of the 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 £2.2m to £2.9m. Alternatively an assumed 15 year disposal plan would result in the impairment provision being reduced from £2.2m to £1.6m.

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 £2.2m to £2.3m. Conversely assuming annual growth in HPI of 5% over the next 5 years would result in the impairment provisioning model being increased from £2.2m to £2.3m.

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, judgements must be made to estimate the average life of each mortgage where a product fee is attached. These judgements are applied taking into account factors including the terms of the particular products, historic repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance.

c) 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.

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.

	Group		Society	
	2021	2020	2021	2020
2. Interest receivable and similar income	£000	£000	£000	£000
On loans fully secured on residential property	9,574	9,075	9,574	9,075
On other loans	308	396	308	396
On debt securities- interest and other income	36	192	36	192
On other liquid assets- interest and other income	77	270	77	270
Income/(loss) generated from sale of properties in possession	(270)	-	(270)	-
Net interest expense on derivative financial instruments	(637)	(307)	(637)	(307)
	<u>9,088</u>	<u>9,626</u>	<u>9,088</u>	<u>9,626</u>

Notes to the Accounts

Continued

	Group		Society	
	2021	2020	2021	2020
3. Interest payable and similar charges	£000	£000	£000	£000
On shares held by individuals	2,032	3,184	2,032	3,184
On deposits and other borrowings	219	377	219	377
	<u>2,251</u>	<u>3,561</u>	<u>2,251</u>	<u>3,561</u>

	Group		Society	
	2021	2020	2021	2020
4. Fees and commissions receivable	£000	£000	£000	£000
Insurance commissions	30	51	30	51
Fees receivable	90	94	90	94
Rentals and sundry income	7	8	7	8
Subsidiary fee income: financial advisory services	187	188	-	-
	<u>314</u>	<u>341</u>	<u>127</u>	<u>153</u>

	Group		Society	
	2021	2020	2021	2020
5. Fees and commission payable	£000	£000	£000	£000
Bank charges	72	92	72	92
Other fees payable	39	27	25	13
	<u>111</u>	<u>119</u>	<u>97</u>	<u>105</u>

	Group		Society	
	2021	2020	2021	2020
6. Net gains / (losses) from derivative financial instruments	£000	£000	£000	£000
Derivatives in designated fair value hedge relationships	1,088	(613)	1,088	(613)
Adjustments to hedging items in fair value hedge accounting relationships	(936)	494	(936)	494
Derivatives not in designated fair value hedge relationships	(10)	(9)	(10)	(9)
	<u>142</u>	<u>(128)</u>	<u>142</u>	<u>(128)</u>

The net gains / (losses) from derivative financial instruments represent the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items.

Notes to the Accounts

Continued

	Group		Society	
	2021	2020	2021	2020
7. Administrative expenses and staff numbers	£000	£000	£000	£000
Administrative expenses				
Directors' emoluments:				
(i) Fees	183	163	183	163
(ii) For executive services	458	417	458	417
Remuneration and expenses of staff:				
(i) Salaries and wages	2,501	2,234	2,388	2,099
(ii) Social security costs	307	270	295	256
(iii) Other pension costs	186	166	186	166
Remuneration of auditors *				
For audit work	128	100	128	100
Operating leases- land and buildings	58	60	58	60
Other administrative expenses	2,164	1,838	2,135	1,812
	5,985	5,248	5,831	5,073

* Remuneration of the auditors disclosed above excludes VAT. The fee of £127,500 is in respect of 2021 services and includes £7,000 which relates to the audit of the subsidiary financial statements (2020: £3,000).

Staff numbers	2021		2020	
	Full time	Part time	Full time	Part time
The average monthly number of persons employed during the year:				
At head office	40	10	32	12
At branch offices	23	11	22	10
Society	63	21	54	22
Subsidiary undertakings	3	1	3	1
Group	66	22	57	23

8. Directors' and Key Managers' Remuneration

Total remuneration of the Society's Directors for the year was £641,000 (2020: £580,000). Full details are given in the Directors' Remuneration Report on page 18. Remuneration of key management personnel, who are not Executive Directors, for the year was £561,000 (2020: £315,000). The Society does not contribute to Non-Executive Directors' pensions.

Directors' loans and transactions

- (a) As at 31 August 2021 there were 3 (2020: 2) outstanding mortgage loans granted in the ordinary course of business to Directors and connected persons, amounting in aggregate to £949,734 (2020: £627,027). As at 31 August 2021 a total of £25,356 (2020: £27,773) 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 2021, there were no amounts outstanding to any connected businesses (2020: £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.

Notes to the Accounts

Continued

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

	Group			Society		
	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000	Loans fully secured on residential property £000	Other loans fully secured on land £000	Total £000
Individual provision						
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 31st August 2021	2,172	-	2,172	2,172	-	2,172
Collective provision						
At 1 September 2020	348	12	360	348	12	360
Movement in the year	(260)	-	(260)	(260)	-	(260)
At 31 August 2021	88	12	100	88	12	100
Individual provision						
At 1 September 2019	5,113	-	5,113	5,113	-	5,113
Amounts utilised	(143)	-	-	-	-	-
Released in the year	(235)	-	(235)	(235)	-	(235)
At 31 August 2020	4,735	-	4,735	4,735	-	4,735
Collective provision						
At 1 September 2019	113	12	125	113	12	125
Movement in the year	235	-	235	235	-	235
At 31 August 2020	348	12	360	348	12	360
Total provision						
31 August 2021	2,260	12	2,272	2,260	12	2,272
31 August 2020	5,083	12	5,095	5,083	12	5,095

Included in loans secured on residential property are a total of 5 cases (2020: 10), with a balance outstanding of £7.07m (2020: £14.03m), all of which are either in possession or under management by a Law of Property Act Receiver. Although these cases have experienced previous financial difficulty, each has now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream which exceeds current funding costs. As at 31 August 2021 total specific impairment provisions of £2.14m (2020: £5.1m) are held against these exposures.

The Provisions as at 31 August 2021 and 2020 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 properties (2020: 0) utilising specific provisions of £2,988k (2020: £143k) previously allocated to the exposure.

Notes to the Accounts

Continued

	Group		Society	
	2021	2020	2021	2020
10. Tax on profit on ordinary activities	£000	£000	£000	£000
a) Analysis of charge in year:				
Current tax	(127)	(19)	(127)	(19)
Deferred tax (see Note 25)				
Origination and reversal of timing differences	232	115	232	115
Tax on profit on ordinary activities (see note (b) below)	105	96	105	96
b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	769	833	750	834
Tax on profit on ordinary activities	145	158	141	158
Effects of:				
Adjustments in respect of prior periods	(127)	-	(127)	-
Fixed asset differences	27	12	27	12
Remeasurement of deferred tax for changes in tax rates	(16)	(73)	(16)	(73)
Deferred tax charged directly to Other Comprehensive Income	(1)	(1)	(1)	(1)
Losses carried back	77	-	77	-
Group Tax Relief surrendered/ (claimed)	-	-	4	-
Current tax charge for year	105	96	105	96

The standard rate of Corporation Tax in the UK was 19% and accordingly the Society's profits have been taxed at this effective rate (2020: 19%). Deferred tax has been measured based on the substantively enacted rate of 25%. Further details on deferred tax are included in Note 25.

	Group and Society	
	2021	2020
11. Cash in hand and balances with the Bank of England	£000	£000
Cash in hand	372	456
Bank of England Reserve Account	70,006	57,505
	70,378	57,961

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 £77,087k (2020: £62,403k) for the Group and £76,896k (2020: £62,189k) for the Society.

	Group		Society	
	2021	2020	2021	2020
12. Loans and advances to credit institutions	£000	£000	£000	£000
Loans and advances to credit institutions remaining maturities as follows:				
Repayable on demand	6,709	4,442	6,518	4,228
Not more than three months	2,000	-	2,000	-
	8,709	4,442	8,518	4,228

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 2021 a total exchange of collateral of £1,058k (2020: £1,048k) 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	
	2021	2020
	£000	£000
Treasury bills issued by UK Government	6,000	17,000
Certificates of deposits	14,005	7,036
	<u>20,005</u>	<u>24,036</u>

The Board considers 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	
	2021	2020
	£000	£000
Movements in debt securities during the year are summarised as follows:		
At 1 September 2020	24,036	21,075
Additions	26,000	42,469
Disposals and maturities	(29,982)	(39,476)
Movement in premium and accrued interest	(18)	(54)
(Losses) / gains in fair value recognised other comprehensive income	(31)	22
	<u>20,005</u>	<u>24,036</u>

14. Derivative financial instruments	Group and Society		
	Contract Notional Amount	Fair Value Assets	Fair Value Liabilities
	£000	£000	£000
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
	<u>133,500</u>	<u>161</u>	<u>438</u>
At 31 August 2020			
Unmatched derivatives- Interest rate swaps	7,700	1	11
Derivatives designated as fair value hedges interest rate swaps	118,250	7	1,352
	<u>125,950</u>	<u>8</u>	<u>1,363</u>

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

	Group		Society	
	2021	2020	2021	2020
15. Loans and advances to customers	£000	£000	£000	£000
Loans and advances to customers comprise:				
Loans fully secured on residential property	359,126	360,161	359,126	360,161
Loans fully secured on land	7,323	13,998	7,323	13,998
Fair value adjustment for hedged risk	157	1,094	157	1,094
	<u>366,606</u>	<u>375,253</u>	<u>366,606</u>	<u>375,253</u>

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 £157k (2020: £1,094k) 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	
	2021	2020	2021	2020
	£000	£000	£000	£000
Repayable on demand	6,912	11,414	6,912	11,414
In not more than three months	3,607	2,872	3,607	2,872
In more than three months but not more than one year	10,374	12,553	10,374	12,553
In more than one year but not more than five years	58,335	61,617	58,335	61,617
In more than five years	288,861	290,279	288,861	290,279
	<u>368,089</u>	<u>378,735</u>	<u>368,089</u>	<u>378,735</u>
Provisions for bad and doubtful debts (See Note 9)	(2,272)	(5,095)	(2,272)	(5,095)
Fair value adjustment for hedged risk	157	1,094	157	1,094
Effective Interest Rate Adjustment	632	519	632	519
	<u>366,606</u>	<u>375,253</u>	<u>366,606</u>	<u>375,253</u>

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 are a total of 5 cases (2020: 10), with a balance outstanding of £7.07m (2020: £14.03m), all of which are either in possession or under management by a Law of Property Act Receiver. Although these cases have experienced previous financial difficulty, each has now been let thereby protecting the fabric of the buildings over which the Society has a charge, as well as generating an income stream which exceeds current funding costs. As at 31 August 2021 total specific impairment provisions of £2.14m (2020: £5.1m) are held against these exposures.

Notes to the Accounts

Continued

16. Investments in subsidiary undertakings

	Society		
	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Total
	£000	£000	£000
At 1 September 2020	-	-	-
Advances	-	-	-
Repayments	-	-	-
At 31 August 2021	-	-	-

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

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

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

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

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

As at 31 August 2021 amounts due to Hanley Financial Services Limited from the Society of £659k (2020: £782k), amounts due to Hanley Mortgage Services from the Society of £165k (2020: £nil).



Notes to the Accounts

Continued

Group and Society					
17. Tangible fixed assets	Land and Buildings				Total
	Freehold	Long Lease	Short Lease	Equipment, Fixtures, Fittings & Vehicles	
	£000	£000	£000	£000	£000
Cost at 1 September 2020	1,020	2,124	249	1,063	4,456
Additions during the year	-	-	-	44	44
Cost at 31 August 2021	1,020	2,124	249	1,107	4,500
Depreciation at 1 September 2020	348	433	249	724	1,754
Charge for the year	20	39	-	91	150
Depreciation at 31 August 2021	368	472	249	815	1,904
Net book value:					
at 31 August 2020	672	1,691	-	339	2,702
at 31 August 2021	652	1,652	-	292	2,596

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

Group and Society	
18. Intangible fixed assets	Computer Software
	£000
Cost as at 1 September 2020	836
Additions during the year	1,746
Cost as at 31 August 2021	2,582
Amortisation as at 1 September 2020	484
Charge for the year	163
Amortisation as at 31 August 2021	647
Net Book Value	
at 31 August 2020	352
at 31 August 2021	1,935



Notes to the Accounts

Continued

	Group		Society	
	2021	2020	2021	2020
19. Prepayments and accrued income	£000	£000	£000	£000
Prepayments and accrued income	226	232	226	232
	<u>226</u>	<u>232</u>	<u>226</u>	<u>232</u>

	Group and Society	
	2021	2020
20. Shares	£000	£000
Held by individuals	415,207	395,019
	<u>415,207</u>	<u>395,019</u>
Repayable from the date of the balance in the ordinary course of business as follows:		
Accrued interest	453	698
Repayable on demand	340,365	312,024
In not more than three months	20,713	14,935
In more than three months but not more than one year	16,986	46,130
In more than one year	36,690	21,232
	<u>415,207</u>	<u>395,019</u>

	Group and Society	
	2021	2020
21. Amounts owed to credit institutions	£000	£000
Repayable from the date of the balance in the ordinary course of business as follows:		
Accrued interest	-	3
In not more than three months	-	-
In more than three months but not more than one year	-	2,250
In more than one year but not more than five years	-	15,000
	<u>-</u>	<u>17,253</u>

Included in the amount for 2020 is £15,000k relating to funds drawn from the Term Funding Scheme.

	Group and Society	
	2021	2020
22. Amounts owed to other customers	£000	£000
Repayable from the date of the balance in the ordinary course of business as follows:		
Accrued interest	11	23
Repayable on demand	20,061	18,078
In not more than three months	1,250	2,150
In more than three months but not more than one year	3,900	2,173
In more than one year but not more than five years	-	-
	<u>25,222</u>	<u>22,424</u>

Notes to the Accounts

Continued

	Group		Society	
	2021	2020	2021	2020
23. Other Liabilities	£000	£000	£000	£000
Corporation tax due within one year	-	-	-	-
Amounts due to Group undertakings (See note 16)	-	-	824	782
	-	-	824	782

The above subsidiary company balances are interest free and have no fixed repayment date.

As a financial services firm the Society, as part of its normal course of business, receives complaints from our Members and wider customers. The Society takes any complaint seriously, and acting with integrity, utilises formal management procedures to ensure all concerns are dealt with appropriately. The complaints procedure and contact details can be found on the Society's website.

	Group		Society	
	2021	2020	2021	2020
24. Accruals and deferred income	£000	£000	£000	£000
Accruals	724	728	724	728
Deferred income	-	-	-	-
	724	728	724	728

	Group		Society	
	2021	2020	2021	2020
25. Deferred Taxation	£000	£000	£000	£000
Current tax asset	146	105	146	105
Deferred tax asset	278	511	278	511
Total tax assets	424	616	424	616
Composition of deferred tax balance				
Fixed asset timing differences	(588)	(242)	(588)	(242)
Short term timing differences	752	753	752	753
Losses and other deductions	114	-	114	-
	278	511	278	511
Deferred taxation at 1 September 2020	511	627	511	627
Fixed asset timing differences	(319)	(84)	(319)	(84)
Short term timing differences	(189)	(144)	(189)	(144)
Losses and other deductions	114	38	114	38
Effects of change on tax rate	161	74	161	74
As at 31 August 2021	278	511	278	511

The deferred tax asset is recognised at the substantively enacted tax rate of 25% (2020: 19%). 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

	Group		Society	
	2021	2020	2021	2020
26. General reserves	£000	£000	£000	£000
At 1 September as previously stated	28,800	28,063	27,804	27,066
Profit for the financial year	664	737	645	738
	<u>29,464</u>	<u>28,800</u>	<u>28,449</u>	<u>27,804</u>

	Group and Society	
	2021	2020
27. Available for sale reserves	£000	£000
At 1 September	15	(7)
Net (loss) /gain from change in fair value	(31)	22
	<u>(16)</u>	<u>15</u>
Corporation Tax on Available for Sale Reserve	-	-
Deferred Tax on Available for Sale Reserve	1	-
	<u>(15)</u>	<u>15</u>

	Group and Society	
	2021	2020
28. Guarantees and other financial commitments	Land and buildings	Land and buildings
	£000	£000
Operating leases which expire:		
Within one year	47	47
Within two to five years	144	66
	<u>191</u>	<u>113</u>

29. Country by country reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive IV (CRD IV) have been implemented in the UK by Capital Requirements (Country by Country Reporting) Regulations 2013. The regulations require the Society to disclose information regarding the source of its income and location of operations.

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

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

For the year ended 31 August 2021 The Hanley Economic Building Society's annual accounts report:

- Group total operating income was £7.0m (2020: £6.1m). Total operating income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable).
- Profit before tax was £0.8m (2020: £0.8m), all of which arising from UK-based activity.
- The average number of Group full time equivalent employees was 80 (2020: 73), all of which were employed in the UK.
- No corporation tax was paid in the year (2020: £nil) and is all within the UK tax jurisdiction.
- No public subsidies were received in the year (2020: none).

Notes to the Accounts

Continued

30. Financial instruments

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

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

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

The only derivatives used in balance sheet risk management are interest rate swaps and caps which are used to hedge Group 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 2021 and 31 August 2020 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 Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed interest rates Fixed term Short to medium term maturity	Available for sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term Fixed or variable interest rate	Loans and receivables at amortised cost
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed interest rates Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed interest rates Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of derivative	Fair value through the Income Statement Accounted for at trade date

Notes to the Accounts

Continued

30. Financial instruments continued

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

Carrying values by category 31 August 2021	Group					Total
	Held at amortised cost			Held at fair value		
	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	
	£000	£000	£000	£000	£000	£000
Financial assets						
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
Total financial assets	375,315	70,378	20,005	160	1	465,859
Total non-financial assets						5,181
Total group assets						471,040
Financial liabilities						
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
Total financial liabilities	-	440,429	-	418	20	440,867
Total non-financial liabilities						724
General and other reserves						29,449
Total Group liabilities						471,040



Notes to the Accounts

Continued

30. Financial instruments continued

Carrying values by category 31 August 2020	Group					Total
	Held at amortised cost			Held at fair value		
	Loans and receivables	Cash and financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	
	£000	£000	£000	£000	£000	£000
Cash in hand and balances with Bank of England	-	57,961	-	-	-	57,961
Loans and advances to credit institutions	4,442	-	-	-	-	4,442
Debt securities	-	-	24,036	-	-	24,036
Derivative financial instruments	-	-	-	7	1	8
Loans and advances to customers	375,253	-	-	-	-	375,253
Total financial assets	379,695	57,961	24,036	7	1	461,700
Total non-financial assets						3,902
Total Group assets						465,602
Financial liabilities						
Shares	-	395,019	-	-	-	395,019
Amounts owed to credit institutions	-	17,253	-	-	-	17,253
Amounts owed to other customers	-	22,424	-	-	-	22,424
Derivative financial instruments	-	-	-	1,352	11	1,363
Total financial liabilities	-	434,696	-	1,352	11	436,059
Total non-financial liabilities						728
General and other reserves						28,815
Total Group liabilities						465,602

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

30. Financial instruments continued

Fair values of financial assets and liabilities carried at fair value

	Notes	Group			Total
		Level 1	Level 2	Level 3	
31 August 2021		£000	£000	£000	£000
Financial assets					
Available-for-sale					
Debt securities	13	20,005	-	-	20,005
Derivative financial instruments					
Interest rate swaps	14	-	161	-	161
		<u>20,005</u>	<u>161</u>	<u>-</u>	<u>20,166</u>
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	-	438	-	438
		<u>-</u>	<u>438</u>	<u>-</u>	<u>438</u>
31 August 2020					
Financial assets					
Available-for-sale					
Debt securities	13	24,036	-	-	24,036
Derivative financial instruments					
Interest rate swaps	14	-	8	-	8
		<u>24,036</u>	<u>8</u>	<u>-</u>	<u>24,044</u>
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	14	-	1,363	-	1,363
		<u>-</u>	<u>1,363</u>	<u>-</u>	<u>1,363</u>

Valuation techniques

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

Debt securities – Level 1

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

Interest rate swaps – Level 2

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

Assets not based on observable market data – Level 3

The Society does not hold any level 3 assets or liabilities therefore does not hold any valuation techniques.

Notes to the Accounts

Continued

30. Financial instruments continued

Credit risk

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

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

	Group	Group	Society	Society
	2021	2020	2021	2020
	£000	£000	£000	£000
Credit risk exposure				
Cash in hand and balances with Bank of England	70,378	57,961	70,378	57,961
Loans and advances to credit institutions	8,709	4,442	8,518	4,228
Debt securities	20,005	24,036	20,005	24,036
Derivative financial instruments	161	8	161	8
Loans and advances to customers	366,606	375,253	366,606	375,253
Total statement of financial exposure	465,859	461,700	465,668	461,486
Off balance sheet exposure - mortgage commitments	27,123	34,600	27,123	34,600
Total statement of financial exposure	492,982	496,300	492,791	496,086

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.



Notes to the Accounts

Continued

30. Financial instruments continued

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

	Group			
	2021 £000	2021 %	2020 £000	2020 %
Industry sector				
Banks	15,712	15.86	9,462	10.95
Building Societies	7,002	7.07	2,016	2.33
Central Bank	70,378	71.02	57,961	67.05
Central Government	6,000	6.05	17,000	19.67
	<u>99,092</u>	<u>100.00</u>	<u>86,439</u>	<u>100.00</u>

	Group						2020
	2021 £000	AAA %	AA %	A %	A- %	Other %	£000
Geographic region							
United Kingdom	98,772	77.33	15.58	3.03	2.03	2.03	86,169
Europe	320	-	-	-	100.00	-	270
Australia	-	-	-	-	-	-	-
Canada	-	-	-	-	-	-	-

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

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

	Group					
	2021 £000	AAA %	AA %	A %	A- %	2020 £000
Geographic region						
United Kingdom	115,100	18.59	81.41	-	-	102,850
Europe	18,400	-	-	-	100.00	23,100



Notes to the Accounts

Continued

30. Financial instruments continued

b) Loans and advances to customers

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

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

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

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

Group and Society		
	2021	2020
	%	%
Geographical analysis		
East Anglia	4	3
East Midlands	5	5
London and South East	29	30
North East	3	3
North West	15	16
South West	8	7
Wales	4	4
West Midlands	22	24
Yorkshire and Humberside	6	6
Scotland	4	2
	<u>100</u>	<u>100</u>

Group and Society		
LTV analysis	2021	2020
	%	%
0% - 50%	33	28
>50% - 60%	11	11
>60% - 70%	11	11
>70% - 80%	14	14
>80% - 90%	25	12
>90% - 100%	3	19
>100%	3	5
	<u>100</u>	<u>100</u>

Average loans to value of mortgage exposures (%)	53	57
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All loans with a LTV exceeding 100% are regularly monitored by the Credit Committee. Further, all loans with a LTV exceeding 100% are included in the individual impairment provisioning model used to determine the adequacy of the Group's overall impairment provision. See Note 1.

Notes to the Accounts

Continued

30. Financial instruments continued

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

	Group and Society			
	2021	2021	2020	2020
Arrears analysis	£000	%	£000	%
Not impaired:				
Neither past due or impaired	348,108	94.57	356,632	94.17
Past due up to 3 months	5,573	1.51	3,828	1.01
Past due 3 – 6 months	631	0.17	151	0.04
Past due 6 – 12 months	148	0.04	110	0.03
Past due over 12 months	-	-	-	-
Impaired:				
Not past due	6,792	1.85	4,173	1.10
Past due up to 3 months	-	-	507	0.13
Past due 3 – 6 months	-	-	-	-
Past due 6 – 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions and LPA receiverships	6,837	1.86	13,334	3.52
Total as per Note 15	368,089	100.00	378,735	100.00
	Indexed	Unindexed	Indexed	Unindexed
	£000	£000	£000	£000
Value of collateral held:				
Neither past due or impaired	804,130	674,820	760,715	680,094
Past due but not impaired	10,368	7,522	5,158	3,754
Impaired	13,418	11,952	13,010	11,744
	827,916	694,294	778,883	695,592

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 1.74% (2020: 1.21%).

With collateral capped to the amount of outstanding debt, the value of collateral held against 'Impaired' assets at 31 August 2021 is £13,418k (2020: £13,010k) against outstanding debt of £14,017k (2020: £18,014k). 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

30. Financial instruments continued

Forbearance

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

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

Examples of these payment plans include increasing their normal monthly payment, subject to affordability, or extending the term of the mortgage 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 2021 the Society had 9 cases (2020: 5) subject to forbearance measures with total balances of £3.58m (2020: £0.68m). In each instance the loans were not impaired and were subject to interest only concessions at the year end.



Notes to the Accounts

Continued

30. Financial instruments continued

Liquidity risk

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

- Meet day-to-day business needs;
- Meet any unexpected cash needs;
- Maintain public confidence; and
- Ensure maturity mismatches are provided for.

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

The following tables on pages 65 and 66 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.



Notes to the Accounts

Continued

30. Financial instruments continued

Residual maturity as at 31 August 2021		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		
	£000	£000	£000	£000	£000	£000	£000	
Financial assets								
Liquid 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 liquid 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	(276,610)	(8,477)	1,459	25,820	284,560	(26,752)	-	

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

30. Financial instruments continued

Residual maturity as at 31 August 2020	Group						
	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	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Liquid assets							
Cash in hand and balances with Bank of England	57,961	-	-	-	-	-	57,961
Loans and advances to credit institutions	4,442	-	-	-	-	-	4,442
Debt securities	-	5,000	19,036	-	-	-	24,036
Total liquid assets	62,403	5,000	19,036	-	-	-	86,439
Derivative financial instruments	-	-	-	-	-	8	8
Loans and advances to customers	11,414	2,872	12,553	61,617	290,279	(3,482)	375,253
Tangible assets	-	-	-	-	-	2,702	2,702
Intangible assets	-	-	-	-	-	352	352
Other assets	-	-	-	-	-	848	848
Total assets	73,817	7,872	31,589	61,617	290,279	428	465,602
Financial liabilities and reserves							
Shares	312,256	15,093	46,352	15,967	5,351	-	395,019
Amounts owed to credit institutions and other customers	18,078	2,170	4,427	15,002	-	-	39,677
Derivative financial instruments	-	-	-	-	-	1,363	1,363
Other liabilities	-	-	-	-	-	728	728
Reserves	-	-	-	-	-	28,815	28,815
Total liabilities	330,334	17,263	50,779	30,969	5,351	30,906	465,602
Net liquidity gap	(256,517)	(9,391)	(19,190)	30,648	284,928	(30,478)	-

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

30. Financial instruments continued

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

	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	
	£000	£000	£000	£000	£000	£000	£000
31 August 2021							
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
Total liabilities	360,431	21,988	20,928	32,943	4,745	438	441,473

	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	
	£000	£000	£000	£000	£000	£000	£000
31 August 2020							
Financial liabilities							
Shares	312,029	14,943	46,597	16,163	5,932	-	395,664
Amounts owed to credit institutions and other customers	18,078	2,173	4,438	15,024	-	-	39,713
Derivative financial instruments	-	-	-	-	-	1,363	1,363
Total liabilities	330,107	17,116	51,035	31,187	5,932	1,363	436,740

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

30. Financial instruments continued

Market risk

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

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

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

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

	+200bps Parallel Increase	
	2021	2020
	£'000	£'000
Sensitivity of reported reserves to interest rate movement (economic value)		
As at 31 August	(299)	(634)
Average for the period	(186)	(612)
Maximum for the period	(556)	(802)
Minimum for the period	(31)	(446)

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

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

The Society has five Credit Support Annexes (CSA) for its derivative instruments which typically provide for the exchange of collateral on a daily basis to mitigate net mark-to-market credit exposure. As at 31 August 2021 a total exchange of collateral of £1058k (2020: £1,048k) has taken place in accordance with the trigger points within the respective CSA. These are included within loans and advances to credit institutions. (See Note 12).



Notes to the Accounts

Continued

30. Financial instruments 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 liability when the fair value is negative. The fair values of the Society's derivatives are as follows.

Assets	Liabilities	Assets	Liabilities
2021	2021	2020	2020
£000	£000	£000	£000
161	438	8	1,363

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 IAS 39. The Society pays fixed and receives 3 month LIBOR on all of its derivatives at 31 August 2020. 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 provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. Transition relief. They are effective for periods beginning on or after 1 January 2020.

Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates has 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). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020.

Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3 month LIBOR. The Society has transitioned all LIBOR swaps to SONIA in October 2021.

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

	2021	2020
	£000	£000
Total notional value of LIBOR swap contracts	98,700	125,950
Total notional value of SONIA swap contracts	34,800	-
Total notional value of swap contracts	133,500	125,950
Notional value of LIBOR swap contracts used in hedges	88,600	118,250
Notional value of LIBOR swap contracts unmatched	10,100	7,700
Total notional value of LIBOR swap contracts	98,700	125,950
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	5,100	41,750
Notional value of LIBOR swap contracts used in hedges which mature after 2021	83,500	76,500
	88,600	118,250
The hedged mortgage assets that are affected by LIBOR reform are shown in the table below:		
Carrying value of mortgages hedged by LIBOR swap contracts	78,297	107,043
Of which:		
Carrying value of mortgages hedged by LIBOR swap contracts which mature before the end of 2021	3,958	32,590
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 2021	74,339	74,453
	78,297	107,043

Annual Business Statement

For the year ended 31 August 2021

1. Statutory Percentages

	2021	Statutory Limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	% 2.21	% 25
Proportion of shares and deposits not in the form of shares held by individuals (the 'funding limit')	5.73	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.

2. Other Percentage

	Ratio as at	
	31 August 2021	31 August 2020
	%	%
Gross capital as a percentage of shares and borrowings	6.69	6.63
Free capital as a percentage of shares and borrowings	5.68	6.01
Liquid assets as a percentage of shares and borrowings	22.50	19.88
As a percentage of mean assets:		
Profit after taxation	0.14	0.16
Management expenses	1.34	1.19

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

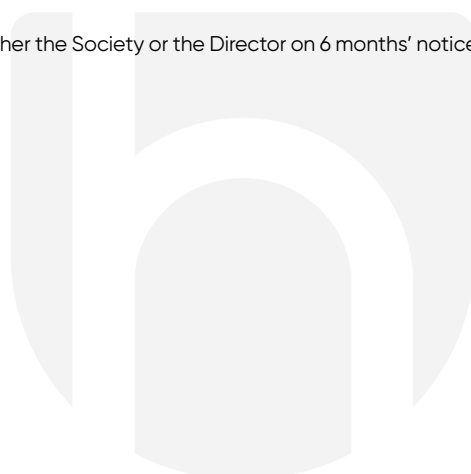
3. Information relating to the Directors at 31 August 2021

Name	Occupation	Date of Birth	Date of Appointment	Directorships
N. M. Jordan	Society's Chairman	1.4.1960	1.5.2018	Bank of America Merrill Lynch International DAC Hanley Financial Services Limited Hanley Mortgage Services Limited Nordisk Renting AB
R. I. Henley	Director	26.1.1958	1.1.2020	Crawshen Consulting Ltd Hanley Financial Services Limited Hanley Mortgage Services Limited
A. S. Macdonald	Consultant	20.10.1954	19.2014	Hanley Financial Services Limited Hanley Mortgage Services Limited Non-Newtonian Hospitality Limited Sempre Ski Limited
L. Payne AGMA, CGMA	Society's Finance Director	19.10.1988	18.6.2019	Hanley Financial Services Limited Hanley Mortgage Services Limited
M. E. Selby BA, MBA	Society's Chief Executive	30.8.1969	14.11.2016	Hanley Financial Services Limited Hanley Mortgage Services Limited
E. A. Whitfield, ACA, BSc (Hons)	Director	4.10.1965	1.05.2020	Growth Plans Ltd Threesixty Holdco 1 Ltd Threesixty Holdco 2 Ltd
S. Woodings LLB	Company Director and Consultant Solicitor	15.9.1966	1.4.2016	Argus Fire Protection Company Limited Hanley Financial Services Limited Hanley Mortgage Services Limited Slademain Limited
R. M. Young MIPA	Company Director and Consultant	20.12.1953	5.5.2017	Caverswall Park Developments Limited Caverswall Park Management Company Limited Hanley Financial Services Limited Hanley Mortgage Services 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.



Annual Business Statement

Continued

4. Officers

Name	Occupation	Directorships
L. Carter LLB (Hons)	Head of Operations	-
A. Guy Dip (Comp), MICA	Head of Risk	-
D. Henry PG Dip HRM	Head of Human Resources	-
J. Jones BA (Hons)	Head of Finance	-
D. Lownds BSc (Hons), MSc	Head of Sales, Marketing & Business Development	-
T. A. Ratcliffe	Head of Branches	-

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

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

Tel: 01782 255000

Email: customerservices@thehanley.co.uk

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



Hanley
ECONOMIC
Building Society



@hanleyeconomic

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