ANNUAL REPORT & ACCOUNTS 2021

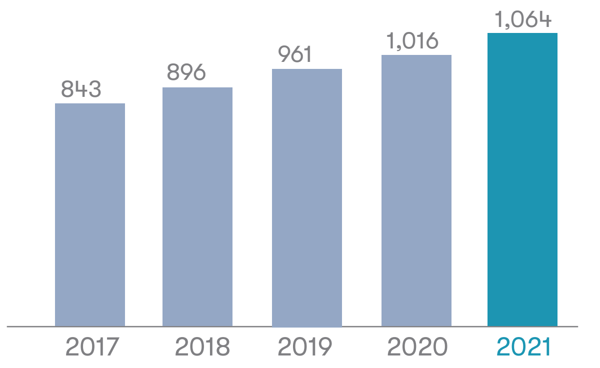
Year ended 31 October 2021

Newbury Building Society

IN THIS REPORT

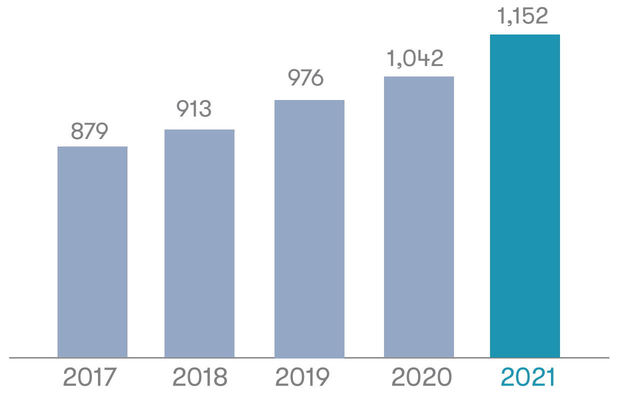
OUR PERFORMANCE HIGHLIGHTS

Mortgage balances (£ million)



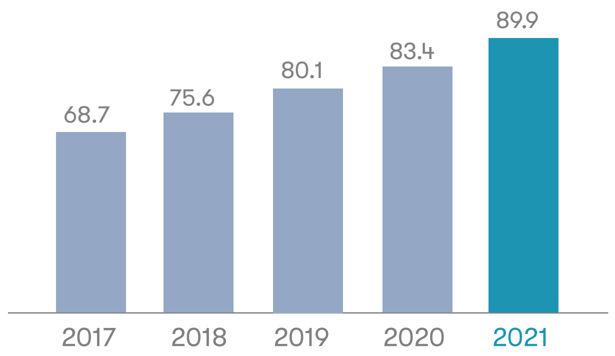
We achieved gross lending of £214m to mortgage customers (2020: £181m)

Savings balances (£ million)



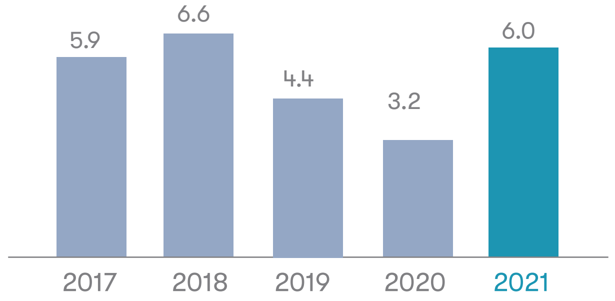
We increased savings balances by £110m (2020: £66m)

Regulatory Capital (£ million)



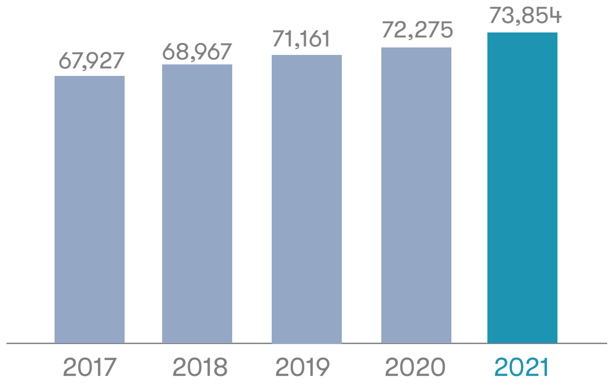
Total capital ratio increased to 20.9% (2020: 19.4%)

Profit after tax (£ million)



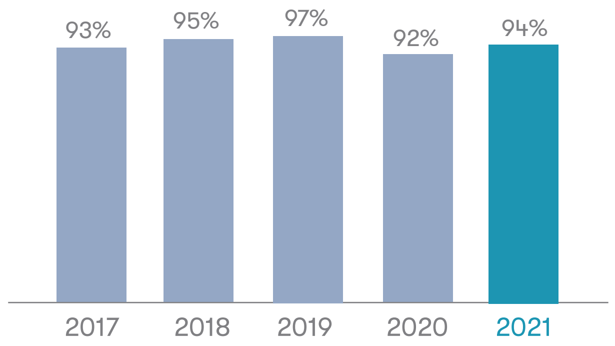
Management expenses ratio of 0.94% (2020: 0.93%)

Members



Increased member numbers by 1,579 (2020: 1,114)

Mystery shopping scores



Complaints as a percentage of members 0.07% (2020: 0.07%)

These measures are key performance indicators. For information on these measures please see pages 16 and 17.

CHAIRMAN'S STATEMENT

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> Members will not be surprised to read that we endorsed the existing strategy, which is to help our members build sustainable futures by being the trusted provider of savings and mortgages in our communities.

Peter Brickley
Chairman of the Board

It is with a mixture of pride and relief that I can say that despite the ongoing impact of the Covid-19 pandemic, your Society delivered another successful year in 2021, with the highlight being the blend of strong balance sheet growth and profitability, something which has characterised so many of our recent performances.

The year started inconspicuously with the second national lockdown, our branches only open in the mornings and the majority of our Head Office staff working from home, even though our new building at 90 Bartholomew Street was ready for occupation. Indeed, staff worked from home throughout most of the year, only being able to return in August, when Covid-19 conditions finally eased enough to allow it. Although our people have worked tirelessly to make working from home successful, we have little doubt that bringing employees together in our office, at least for two or three days each week, produces a better working experience for them and a better customer experience for our members. Ultimately, time will tell whether working from home is a permanent feature of work life for those that can, but after 15 months of Board meetings held by video technology, I can readily state that it was an invigorating experience in July to have the whole Board around the table in person for our annual strategy day! Our new head office prepares us for the future, whereas we would have had real trepidation returning to the cramped conditions of its predecessor.

The Board undertook a full review of our strategy during the year, culminating with an agreement for our future plans in July. Members will not be surprised to read that we endorsed the existing strategy, which is to help our members build sustainable futures by being the trusted provider of savings and mortgages in our communities. In order to deliver that core aim, we specifically agreed to focus on customer value over the long term, to develop and accelerate our digital transformation, to deliver steady growth, to look after our employees and to demonstrate a community conscience. We try hard, but we are always pleased to hear your feedback, whether positive or otherwise.

The housing market has enjoyed an astonishingly strong year given the impact of Covid-19 on the wider economy. The stamp duty holiday for property purchases up to £500k was clearly a factor, and the unusually high level of completions in June and September (the months when that benefit respectively reduced and ended) evidenced its popularity with purchasers. The national market saw house prices rising by 10%+ during the year as demand for property exceeded supply, particularly in the suburban and rural markets. When coupled to the lowest interest rates since records began, and with salaries beginning to rise, affordability for house price increases was unusually favourable.

The result of this strong market was a record lending year for us. The lending achievement was aided by the large pipeline from the previous year which had been waiting to complete at year end in October 2020 but had been delayed by Covid-19. What is noticeable about this year's performance is that enquiries and applications have both reduced in the final quarter as the housing market cools down in recognition of the potential impact of inflation and the likelihood of interest rate rises. Confidence is a fragile thing and although there has been a reduction in the forecast level of unemployment and an increase in the forecast for Gross Domestic Product, the outlook for the housing market nevertheless remains uncertain.

The savings market also proved to be stronger than we had anticipated, with the result that we had to restrict new account openings to local postcodes only. We also reduced savers interest rates modestly in April to reflect the changes being made by competitors and to help rebalance the demand for mortgages and savings. Despite the changes, savers balances increased by over £100m and with the Bank of England's Term Funding Scheme (TFSME) also offering us the opportunity to generate low-cost funding, we ended the year with more liquidity than we would normally hold. This is planned to reduce to around 20% next year and to around 17% in the longer term.

Although there have been no new faces in the Boardroom this year, we did say farewell to two non-executive directors (NEDs) in October when Sarah Hordern and Zoe Shaw both resigned to pursue other business interests. There is no question that the time demand on non-executive directors has increased in recent years and this has been further exacerbated by Covid-19, so I thank Sarah for nearly seven years service and Zoe for nearly four years and for their valuable contributions to our progress during their time on the Board. I must add that throughout the Covid-19 period your Non-Executive Directors have kept their remuneration flat, reflecting the uncertainties we were facing.

Just after year end, we appointed two new NEDs who joined our Board on 1 November, and they are up for election at the AGM in February. Nicola Bruce is a chartered management accountant with significant NED experience across private, public, mutual and charitable sectors and Fiona Phillips is a lawyer and General Counsel for the UK Infrastructure Bank, having recently returned from Hong Kong where she was global head of digital legal for HSBC. We are delighted to have secured their services and look forward to the benefit of their wisdom and experience moving forward. We value the diversity and experience that your Board represents.

There will be two further changes to the membership of the Board in the first quarter of 2022. Firstly, as advised last year, I will be retiring following the AGM in February, having been a member of the Board for thirteen and a half years, the last seven as your chairman. I will be succeeded in the chair by Piers Williamson, who has been on the Board for four years and who will continue to lead the Society's development in the best interests of saving and borrowing members alike. Members can be reassured by the fact that Piers is a treasury and housing expert, with significant experience in our key markets, something we have already benefitted from in his four years on the Board to date.

The second change is the retirement of our Chief Executive Roland Gardner in March 2022. Roland has worked for the Society for 35 years, the last 15 as Chief Executive. He is a larger than life character who is well known throughout the Newbury business community as well as the building society sector, and who has done so much for the Society both in terms of business development and strategic advancement during his career with us. After starting as the manager of Newbury Branch, he has subsequently contributed to and has overseen much of the change which has enabled us to become one of the strongest performing societies in our peer group. Roland deserves much credit for your Society's achievements and receives our gratitude for his loyal service over such a long period. He will be missed, and we wish him all the best for a long and happy retirement.

I am though delighted to confirm that Phillippa Cardno, our Operations & Sales Director, will succeed Roland as CEO. Phillippa has worked for the Society for over 25 years and has been Roland's key support in recent years, so it is completely fitting that she should take over the CEO role and lead the Society into the next phase of its evolution and growth. Digital transformation in financial services is the key strategic area for the Board to oversee in the coming years and there is nobody better placed to lead that transformation than Phillippa, who has had responsibility for our Technology function for 15 years and understands the complexities involved as well as the differing technologies to deliver it. Phillippa is a mortgage professional with an in-depth knowledge and specialism in affordable housing, something which enables the Society to develop the niche mortgage products which deliver what borrowers need whilst giving benefit to the membership as a whole. I am confident Phillippa will lead the Society with distinction in her new role and congratulate on her well-deserved elevation to it.

It has been my privilege and pleasure to have participated in the development of your Society; a time when the Society has doubled in size, strengthened its capital base more than twofold and developed into a community based and service oriented financial services business in which I believe we can all be proud.

On 1st November we celebrated 165 years as the Newbury. Our first AGM was in November 1857, a couple of years before Charles Darwin published his controversial Origin of Species. Then it was reported our mortgage advances totalled £840, with 57 members and a profit of £14 10 shillings. A century and almost 2/3rds later, we have over £1 billion of mortgage assets, £88m of retained profit and about 74,000 members. We must remember that many have gone before us to build this Society, and that burden passes to our successors, in whom I am confident.

Peter Brickley, Chairman
20 December 2021

CHIEF EXECUTIVE'S REVIEW

"The Society believes its purpose and role as a mutual is to lend to all types of aspiring homeowners.

Roland Gardner
Chief Executive

From a business results and development perspective, this has been another eminently satisfactory year for the Society. Given the pervading Covid-19 backdrop, the progress made is most gratifying, both in terms of developing the Society for a more digital future, as well as in terms of delivering the quality of financial results which strengthen the Society's capital base and grow the balance sheet. My executive team and indeed the whole staff of the Society have had to work hard to provide members with our usual standard of service, and despite the challenges of Covid-19, the regular feedback from you, collected independently by Smart Money People, suggests we have succeeded in doing so.

The Society's strategic plans are underpinned by a digital agenda that is member-centric, service-driven, secure, and value-focused. Over the past year we have modernised and introduced many digital services, with an emphasis of moving from traditional on-premise systems to consuming high-quality cloud partner services. Our new phone system ensures our members enquiries are routed straight to our expert customer service teams. We have introduced a digital mortgage appointment booking service that allows our members to choose a time convenient to them. Our mortgage brokers can now communicate through a live chat channel and an anti-fraud service helps reduce delay for our members while identifying questionable applications.

At work and home, we all face a heightened and relentless threat from a cyber incident. We constantly review, monitor, and enhance our defences to ensure that our members' interests are protected from a cyber-attack. We have introduced many new services over the past year to help combat this threat, including significant investment in security devices and a security partner that continually monitors our systems and reacts to any potential incident day and night.

The Society recorded pre-tax profit of £7.6m, a significant increase from the £4.1m last year and higher than we had forecast, the result of a number of favourable factors all combining at the same time. The main elements of our higher than expected profit were: the ability during the year to maintain a wider margin than we had forecast, largely due to a lack of competition in savings markets; the ability to reduce our provisioning, due primarily to the unexpected strength of the housing market; the gains made from derivatives in the run up to our year-end, due to the changed outlook on interest rates; and the disposal of our old Head Office and Abingdon branch, at higher prices than their book value. There is more detail in the Strategic Report which follows my review.

There were no changes to the Bank of England base rate during the year, although the Society did make some changes to savings rates in April as well as restricting admission of new members to local postcodes only. This action was needed to better balance the demand for savings and mortgage products, yet despite this action by the Society, savings balances increased by over £100m during the year as demand for our products remained strong throughout the year.

The Society's mortgage lending proposition is based on the provision of a competitive range of fixed and discounted mortgages, mainly for owner occupiers but also for buy to let landlords. The Society believes its purpose and role as a mutual is to lend to all types of aspiring homeowners and therefore in addition to the traditional core residential market, we also offer loans in areas of the residential market where appropriate returns for risk can be made, such as the first-time buyer products in the Help To Buy range, to customers with credible repayment plans who require interest only mortgages and to those seeking mortgages beyond normal retirement dates.

With a large pipeline carried forward from the previous year, the Society completed a record £214m of new lending during the year, as the market defied the logic that the impact of Covid-19 should have drained it of confidence. The Society experienced unprecedented high volumes of completions in June as well as a strong month in September, as borrowers took advantage of the Stamp Duty Land Tax concessions before they were withdrawn.

Our lending growth was slightly lower than in recent years but given the stern competition for business in a finite sized market, the level of growth was strong enough to maintain our record of at least 5% mortgage balance growth in each of the last ten years. In my view it is no coincidence that those ten years overlap the period of availability of low cost funding from the Bank of England via the Funding for Lending Scheme (FLS) and its successors, the Term Funding Scheme (TFS) and the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The Society has been able to offer more mortgages and more competitively priced mortgages as a result of using the schemes, and our borrowing members have been the beneficiaries of the ensuing lower product pricing. At year end the Society had outstanding borrowings of £155m under TFSME.

I am also pleased to report that the performance of the mortgage book has thus far withstood the challenges anticipated to be caused by Covid-19. As I reported last year, just over 1,000 of our borrowers (about 14% of the total) took advantage of payment deferrals as a result of the impact of Covid-19 on their finances, but I am pleased to say that virtually all have been able to resume normal payments following their 3 or 6 month deferral period, with just 20 cases who are paying on an interest only basis as a temporary forbearance measure. The arrears statistics have not deteriorated and although it is fair to say that uniquely low interest rates assist the affordability of a mortgage, it is nevertheless a comforting fact for members that our borrowers have been collectively able to withstand the stress created by lockdowns and the pandemic generally. The figures provide tangible evidence of the underlying quality of the book and the first rate calibre of our underwriting team. As a result of this, and also because of the strength of the housing market and increase in property values, the Society has been able to release £440k of its bad debt provisions this year.

Community

Despite the challenges to normal lifestyle thrown up by Covid-19, we continued throughout the year to support those who live and work in our branch communities. As a member-owned business, community is close to our hearts and we offer support not only through the products and services we provide, but also by donating our time, skills, and resources.

Our branches and head office each support their chosen charity partners through a blend of volunteering and fund raising, and the Society fund-matches the amounts raised to boost the total financial support to the community.

In total this year, the Society made donations of £63,000 (2020: £59,000) in support of local charities and community organisations.

The Society's Charity account continued to be popular, particularly in the latter part of the year following interest rate changes in April and the non-availability of several other accounts to new investors. The Society makes an annual donation of 0.3% interest to each account member's preferred charity in addition to the interest paid to our savings member. This account generated £23,828 (2020: £25,000) during the financial year, and this was split between the nine partner charities.

The Society's Community Support Scheme, which provides donations and sponsorships to community projects, supported 22 different community organisations and groups during the year, donating a total of £11,432 (2020: £9,023). These donations are aimed at improving community life within the Society's ten branch towns.

Projects which benefitted from the scheme support in 2020/21 included:

Winchester Lido Sports Association received a cheque for £500 from Newbury Building Society's Community Support Scheme.

- Winchester Lido Sports Association's historic Lido restoration.
- Be Free Young Carers, an Oxfordshire based charity who support the lives and wellbeing of young carers.
- SeeAbility, a Tadley charity who support people with learning disabilities or autism, who may also have sight loss, to purchase much-needed specialist physio equipment.
- All Yours, a charity who provide individual sanitary product boxes available for those without access to monthly sanitary products.
- Whitchurch Children's Festival.

Our employees also undertook a range of fund-raising activities during the year:

- Colleagues in our head office baked for the Macmillan Coffee Morning and held a raffle which raised £746.

Wokingham branch team completed a 5km walk around Virginia Water and raised £1,016 for their branch charity, Sue Ryder.

- Seven members of our Wokingham branch team raised £1,016 by completing a 5km Walk to Remember challenge in aid of their charity partner Sue Ryder.
- Our Alton branch colleagues raised £547 by completing a walking challenge (each walking 89.2 miles in a month) to raise funds for their branch charity, The Trussell Trust.
- Our Thatcham and Newbury branches ran a book stall in their branches and raised over £400 in donations from members for their branch charity partner Newbury Cancer Care.

The Society also provides employees with two days paid leave to support community projects of their choosing through volunteering.

During the year, volunteering activities included some redecoration of facilities at Restore, a mental health charity in Didcot and a team from our Wokingham branch spent time volunteering to help preserve and manage the woodland area in Holt Copse, Wokingham.

Other events and activities undertaken in our communities included:

- In partnership with Thatcham Town Council, the Society sponsored a poetry writing competition.
- The Society was the main sponsor of the Julian House Basingstoke Big Sleep Out, an event to raise awareness and funds for the homeless in the Basingstoke area. Members of our Basingstoke branch team joined the Sleep Out on a rainy night in March.

Basingstoke branch manager Lisa Wedge took part in the Julian House Big Basingstoke Sleepout At Home event.

- In January, employees from across the Society took part in an event organised by the Samaritans called Brew Monday which encourages taking time to talk to support colleagues, friends, and family. The Society donated funds to the Samaritan services which provide support to each of our branch towns.

Future

As the Society encounters a new era in the provision of Financial Services, there are more options than ever for people on how to manage their money. The Board is aware of the Society's need to embrace change by investing in its employees and technological capabilities, and members will therefore see changes and improvements in the way the Society delivers its products and services in the coming months and years. The growth and profitability of recent years has provided the foundations for the Society to make these investments, not only for the benefit of our current members, but also for those who will be our future members.

Technology acts as an enabler to our service proposition and whilst technological development will be a key focus, the Board also remains fully committed to a branch network, promoting a savings culture using fair and transparent products, which offer good value in the short, medium and long term. Our aspiration is for the Newbury brand to be instantly recognisable in our branch towns and synonymous with what differentiates the Society from banks: being a mutual, member centric, with relevant attractive products and exceptional customer service.

There are many challenges ahead for the Society as we continue to manage the impact of Covid-19 and specifically what it has done to catalyse different behaviours in the provision and consumption of financial services. The Society will continue to provide a full mortgage and savings service in its branches and we will operate in niches where the wider market lacks capacity or capability. Supplemented by the Society's online capability, members will enjoy the real advantages of a 'bricks and clicks' service.

So, as we look to the future, our digital plans seek to support members through whichever channel best suits them; be it in-branch, by telephone, online or mobile. Over the next 18 months we will be making major changes to our banking platform, which will improve our online service. We are planning a mobile app that will allow members to interact with us from the convenience of their phone. We will be updating our branch phone system to ensure calls are answered quickly by one of our colleagues. We are also considering how best to invest in a new Customer Relationship Management (CRM) system to help our teams provide members with the very best service.

The focus and importance of environmental and climate change has never been more prominent and the Board's three pillar approach to its Green ambition strategy is:

1. To minimise our own carbon footprint by improving the energy efficiency of our buildings and conserving energy through new technology;
2. To help our members lead greener lives by providing access to guidance, funding and support to help with home improvements; and
3. To support initiatives to make the homes on which we lend more energy efficient and better prepared for regulatory and environmental change.

And Finally

This is my final annual statement as your chief executive, as I will be retiring in March. I have been fortunate to have had the privilege of leading the Society for the last 15 years, a period in which we have accomplished so much. In business terms we have more than doubled our assets and our capital. In customer service terms, we have opened new branches in Basingstoke and Winchester and we have commenced our online myaccounts service. We have become increasingly involved in our communities and I hope you agree always put you the members first in our thoughts and actions.

I am the first to admit that the successes the Society has enjoyed are down to the whole Newbury team, and I have had exceptional teams past and present to work with throughout my tenure as CEO. We still have much to do, perhaps most notably in the development of our digital services, which will inevitably become the channel of choice for more members as time passes. And there is no better person to lead that transformation than Phillippa Cardno, our Operations & Sales Director, and I personally could not be more delighted that the Board has chosen to appoint her as my successor.

I am immensely proud of what the Society has achieved in the 15 years since I took over the CEO role from Nigel Fleming. My tenure started with a banking crisis and ends with a pandemic, but despite these significant distractions, the Society has developed and grown consistently over the whole period and now offers the citizens of our branch towns a choice in financial service provision denied to much of the country by the ill-fated demutualisations of the 1990's and the closure of so many bank branches in the last decade.

Roland Gardner, Chief Executive
20 December 2021

STRATEGIC REPORT

This strategic report sets out the Society's progress against our strategic objectives together with an assessment of the environment in which the Society operates and the principal risks faced by the Society and should be read in conjunction with the Chairman's Statement and Chief Executive's Review.

The Covid-19 pandemic situation was, once again, a dominant feature of this financial year and the long term economic consequences are as yet unknown. Throughout this period, the Society has remained open for business, continuing to help new members achieve their home ownership aspirations, supporting existing borrowers experiencing financial difficulties and offering a safe home for our members' savings. The financial performance of the Society for the year ended 31 October 2021 represents another year of strong balance sheet growth, matched with appropriate levels of profitability to support the Society's capital position and financial resilience.

Business objectives and principal activities

As a mutual society the Society exists for the common benefit of its borrowing and savings members, who are collectively its owners.

Members' interests remain at the heart of everything that we do and the Board continues to balance and serve those interests through operating in markets that deliver a sustainable financial performance within an agreed appetite for risk and whilst balancing the continued need to invest in the business for the benefit of future members.

The Society's principal activity is the provision of a range of long-term residential mortgages so that borrowing members can buy a home funded by personal savings from members through simple and straightforward savings products.

Purpose and values

The Society exists to help our members build sustainable futures by being the trusted provider of savings and mortgages in our communities.

We are driven by our six core values, which represent what the Society stands for and form the basis for how the Society is managed and governed. The values were developed by colleagues from across the Society and ensure the Society does the right thing by our customers, communities and people.

Sustainability

financially secure, operationally strong and environmentally conscious

Trust

open and honest; a building society relied on since 1856

Respect

value uniqueness and treat everyone as an individual

Independence

remain member-owned for your benefit

Vibrancy

encourage a happy, healthy culture for our people to be the best they can be

Excellence

offer a first-class professional service where you are at the heart of what we do

Business model and strategy

The Society's business model and strategy continues to serve us well and remains largely unchanged. As a building society, we have no public or private shareholders demanding we maximise profits for distribution. This means we can strike an appropriate balance between long term investment and profit retention to support and strengthen the business for current and prospective members, operating in a socially responsible way in the communities in which we operate.

The Society's lending proposition is based on the provision of a competitive range of fixed and discounted mortgages in the UK offered through a network of approved mortgage brokers and directly from the Society. The Society does not use credit scoring as all loans are individually underwritten by an experienced team, based in Head Office, who have the authority to exercise some flexibility with our lending criteria in appropriate cases. The UK mortgage market is fiercely competitive and so the Society not only operates in the low margin mainstream residential market, but also operates in segments of the residential market where appropriate returns for risk can be made, including shared ownership and buy to let.

Funding is provided through members' deposits, supplemented by funding from participation in the Bank of England's Sterling Monetary Framework and, occasionally, by wholesale borrowings. Our philosophy for our savers is to operate fairly, with simplicity in product design, competitive terms and conditions, and to ensure existing members are treated at least as equally as new members.

Whilst our products and services are considered to be sustainable, the Society keeps its product offerings and market positioning under constant review and makes changes accordingly. The Board continues to believe that savings members have been well served by our pricing policy and that they receive above average returns, coupled with fair terms and conditions on their investments.

The Society's liquidity position is maintained to ensure sufficient cash is available to meet its obligations as they fall due and is principally held in the form of a deposit with the Bank of England. Profit is generated through management of the net interest margin, cost efficiency and low risk lending to sustain the Society's strong capital position to allow it to continue to lend and invest with confidence. The current ultra-low interest rate environment continues to act as a drag on profitability.

The Society remains fully committed to its branch network and expects to continue a programme of modernisation which started with the opening of a new look branch in Abingdon. The Board also recognise that our members have a choice in how to access and manage their personal finances and will make further investment in technology that will enhance the delivery and accessibility of the Society's services. With retained profits the primary source of capital for the Society, the profitability of recent years has provided the foundations for the Society to confidently make these investments for the benefit of current and future members alike.

Strategy

The Society's long term strategy, shaped around the Society's key stakeholders, is to deliver steady and sustainable growth through:

- A focus on customer value over the long term;
- Developing and accelerating the Society's digital transformation;
- Demonstrating a community conscience; and
- Looking after our people.

Further details on how we engage with stakeholders is set out below.

LOOKING AFTER OUR CUSTOMERS

Support in difficult times

We began this business year in much the same way we had ended the last, focusing on supporting our savers and borrowers through the pandemic. Continuing to provide essential services safely in our branches and help support those isolating at home to access their money through online and telephone channels was our priority, as well as ensuring we assisted borrowers whose income continued to be impacted by the economic effects of Covid-19.

Despite the challenges, we had limited temporary branch closures. We did however reduce branch opening hours, primarily to enable us to control employee movement across the branch network and limit infections, which would otherwise have likely resulted in more closures. Reduced opening hours meant branch teams could also help our head office teams support customers accessing online services for the first time and those in financial difficulty.

It has been a real team effort to support customers through a tough period and we are incredibly proud of our employees who worked extremely hard in challenging conditions.

Keeping standards high

In December 2020, the Institute of Customer Service (ICS) conducted their regular survey measuring the quality of customer interactions and experiences with the Society. The results were outstanding: Overall satisfaction scored 90.8, compared to the UK banks and building society average of 78.3, and our Net Promoter Score (NPS), which measures how likely a customer is to recommend an organisation, came in at 70.2, compared to the UK banks and building society average of 20.6. Of those surveyed, 9 out of 10 said they intended to remain a customer and 9 out of 10 said they intend to recommend the Society. We took the opportunity to measure the Society's response to the Covid-19 pandemic and 88% of those surveyed rated us 8, 9 or 10 out of 10.

In July 2021, we were delighted to win two British Banking Awards for "Best Building Society" and "Best Specialist Mortgage Provider". These awards are entirely based on customer feedback, which makes us especially proud.

Responding to customer feedback

The ICS surveys are conducted every 12-18 months and not only give us quantitative insight on the quality of our service but also qualitative insight into what customers value about us and what more they would like from us. To complement the ICS surveys, we also encourage customer feedback at various touchpoints in our savings and mortgage customer journeys through Smart Money People (SMP), a ratings and review service dedicated to financial services. The qualitative feedback from the ICS and SMP, as well as root cause analysis from complaint handling, helps us prioritise our operational change, any training requirements and informs strategic business developments.

In 2020/21, customers asked us to increase online services and improve branch environment. We responded to this by:

- Launching a "test and learn" for an NBS Money app. The app has been trialled with a diverse group of savers and borrowers who helped us define what our preferred solution should look like.
- Implementing an online appointments service for mortgages. This enables customers to book appointments directly with Mortgage Advisers through our website at a time to suit them.
- Extending our video mortgage appointment service through Microsoft Teams technology. Accelerated due to the pandemic, this service is here to stay.
- Providing a live chat service to mortgage intermediaries to enhance the way we communicate with them and simplify the mortgage onboarding service for customers using this channel.
- Relocating and restyling our Abingdon Branch, the first of a full network branch refurbishment programme that will run over the next few years.

In addition, we launched our NBS rewards scheme as a thank you to members.

Placing 'Customers First' into the future

As we move forward, we will continue to centre our strategic plans around our customers. To grow and continue to be sustainable, we need to meet the needs of both existing and future customers. Our "Customer First Approach" supports the view that customers want to borrow and save with an organisation that understands their needs and does good in the world; delivers value through products, supported by a first-class customer service and underpinned by frictionless processes and appropriate digital solutions.

In 2021/22, our focus continues to be about striving for customer excellence across all channels – branch, intermediary and online. Our key priorities are to:

- Develop and implement a mobile app that enhances access to information and transactions.
- Refurbish another of our branches in a style that supports how customers interact.
- Launch a process optimisation program focusing on frictionless and digital solutions.
- Improve communications through branch and head office integrated telephony and live chat.
- Upgrade our core system to enable us to take advantage of new technologies to support services.

We encourage customers to continue to give us feedback. The next ICS survey will be conducted in the New Year and customers can rate and review the Society any time at www.smartmoneypeople.com.

Our members are also actively encouraged to engage with the Society through the Annual General Meeting, either in person (if taking place physically) or through voting on Board resolutions.

We helped Ladybirds Pre-school provide an 'enrichment day' of activities which included an Alpaca visit.

We were pleased to visit Hungerford Primary School following a £500 donation which helped purchase plants for their newly created 'mindful garden' aiming to promote mental wellbeing.

Newbury Building Society donated £500 to Loose Ends Newbury, to fund food and provisions for homeless and vulnerable people in Newbury.

COMMUNITY

Engagement with the communities in which the Society operates is through a mixture of fundraising, sponsorships, volunteering and donations.

Charity partnership scheme

Under this scheme our branch charity partners are chosen and voted for by our employees and our members. Charity partnerships are typically reviewed every three years or more to build long-term relationships with these charities to enable our staff, and hopefully our members, to engage in meaningful volunteering opportunities, which will help us to raise funds and awareness.

Each year the Society organises and undertakes fund raising events in our branches and at local community events. Members are invited to participate in many of these events.

Community support scheme

We are committed to giving something back to the communities in which our members and employees live and work. Each year we take part in a number of community events and help by giving donations and sponsorship to community organisations, groups and teams.

We consider applications for assistance in a number of different categories, including those that:

- Promote and encourage sporting activities;
- Promote and encourage activities in the arts;
- Support education and development; or
- Benefit the environment.

Typically award amounts are between £100 and £500.

The Chief Executive's review on pages 6 to 8 provides more detail on the Society's fundraising and volunteering activities and the projects which benefitted from the scheme support.

Charity account

The Society also operates a savings account where, in addition to the account holder receiving interest, the Society makes an annual donation of 0.3% interest donation to one or more of the Society's charity partners, as nominated by the account holder. Interest is calculated on the account balance on a daily basis and paid directly to the charity annually. During the year ended 31 October 2021 this account generated £23,828 for the nine partner charities (2020: £25,000).

PEOPLE

Our employees expect to be treated with empathy, respect and fairness, encouraged and supported in their development and training and their physical and mental wellbeing looked after. The Society's People team, working alongside other departments, have established a series of objectives in support of the Society's wider strategy, the key principles of which are:

- Being an employer of choice;
- Encouraging and developing innovative leaders;
- Developing and empowering our people; and
- Fostering a culture of inclusion, engagement and wellbeing.

Working beyond the pandemic

Throughout the pandemic the Society has sought at all times to maintain a safe working environment for its employees whilst remaining open for business and accessible to its members. The Society responded rapidly to national lockdowns with the majority of employees adapting well to home-working. As the country emerged from lockdowns, whilst still mindful of government guidance, the Society has introduced a more hybrid and flexible way of working, with individual teams combining home-working with regular periods in the Society's premises.

Learning and development

During the year we introduced a structured competency framework to support the development of performance excellence across the Society. The framework comprises a set of core and functional competencies and incorporates the behaviours set out in the Society's customer charter in support of service excellence.

We also continued with our Emerging Talent programme, originally launched in 2018, with delegates undertaking roles or projects designed to develop the necessary skills to take on new roles or increased responsibilities. Since the Scheme began, more than half of all delegates have taken up new challenges within the Society.

Supporting wellbeing

The pandemic highlighted the importance of wellbeing amongst our employees and our commitment to the health and wellbeing of our people continues to be a prime responsibility of the Society. During the year the Society has run several workshops covering physical and mental health and provides access to third party helplines for employees to confidentially discuss personal concerns. Several employees are trained mental health first-aiders.

Diversity and Inclusion

The Board has a diversity and inclusion statement which defines its commitment and goals in respect of diversity and inclusion. Newbury Building Society recognises that a quality Board is about selecting directors who think and communicate diverse thoughts, ideas and opinions and who have diverse backgrounds and education. The Board recognises the importance diversity and inclusion has on enhancing culture which directly impacts on attracting and retaining employees and members.

To support the assessment of the skills and competencies of the Board and identify any gaps and development needs, all board members contribute to a board skills matrix. The skills matrix provides a holistic understanding of the board capabilities, strengthens succession planning and ensures that any director recruitment improves the board composition by facilitating a broader range of views, experience, background and values. Directors are appointed on merit and also because they positively impact the dynamics of the current board. All candidates, irrespective of background, are always treated respectfully and inclusively.

In respect of our employees, we endeavour to develop and maintain a culture in which our people feel supported and their thoughts and perspectives are valued. Since 2014 we have conducted employee surveys which gather employee views of the executive, job satisfaction, team, working conditions and in the 2020 survey how diversity and inclusion is embedded. We currently have an employee Net Promoter Score (NPS) of +36, which has increased from +21 in 2018. NPS is a measure of employee advocacy based on the question 'would you recommend NBS as an employer to friends and family'. A positive score is considered good and a score exceeding +20 excellent.

In 2021 the Society established a Diversity and Inclusion working party sponsored by the Society's CEO. The purpose of this party is to mainstream diversity and inclusion understanding and skills across the Society, to improve the employee experience and our capacity to meet diverse employee needs.

> *"When you get a diverse set of individuals in every conversation and people's voices are heard, that's when you get a big transformational difference. Inclusion is a sense of belonging and not feeling that there is a club that exists that you are not part of. Most of the time what is different about us is what is best about us. It all starts with listening."*
>
> **Diversity and Inclusion Working Party Statement.**

The Society regularly reviews its recruitment practices and policy ensuring an inclusive and fair approach for both new and existing employees. We collaboratively refreshed our Purpose and Values during 2020 ensuring all employee views were represented. We review remuneration demonstrating how awards are allocated across employee groups. We have recently launched a competency framework to improve clarity in expected behaviours and core skills across the Society, to support consistency and ultimately to enhance succession planning. We will be enabling the production of ethnicity pay gap data in 2022 to complement our knowledge of our gender pay gap, as well as inviting employees to disclose their sensitive data so that we can better demonstrate decisions are made fairly across all employee groups.

In respect of our members, we aim to ensure product and service design meets the needs of our target market/customer base and we monitor the take up and cancellation of products and services, obtaining feedback from our customers via surveys, ratings sites and complaints. We have several measures in our conduct risk dashboard designed to test customer outcomes which are monitored closely. We record and monitor customer characteristics that may indicate vulnerability. Ongoing training and support is provided to those employees who have direct contact with these customers. Our efforts to embed inclusion within our culture by bringing to life our core values of vibrancy and respect positively impact customers, creating open and transparent conversations across all employee groups at all levels. By delivering and receiving feedback as part of ongoing communication, we encourage creativity to continually develop the customer experience.

REGULATORS

Regulators expect the Society to act within the law and regulation at all times, in the interests of customers and with integrity and transparency. The Society considers that it adheres to the highest level of governance with the Board and other members of senior management maintaining open and transparent relations with the industry regulators and appropriate trade bodies. Regulators also expect the Society to be financially strong and maintain adequate levels of capital and liquidity. The financial review set out on pages 16 to 21 demonstrate how this requirement was met.

SUPPLIERS

The Society would not be able to serve its members without the help and support provided by third party suppliers, which includes brokers and industry bodies. Our suppliers expect us to be simple and straightforward to deal with and deliver a friendly and efficient service. Engagement with suppliers can take many forms including through specialist relationship teams as well as the more typical form of telephone calls and written communications. Wherever possible the Society will seek to select suppliers that are local to the communities in which the Society operates, can be trusted to operate to the standards expected by the Society and that share and embody the Society's core values.

Over the course of the financial year the Society has purchased goods and services from 271 suppliers with values ranging from less than £10 to over £841,000. It is the Society's policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract or agreement. The number of creditor days at 31 October 2021 was 13 (2020: 7).

ENVIRONMENT

In 2019 the Prudential Regulation Authority (PRA) published Supervisory Statement 3/19, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change". Since then the Society has committed itself to better understand the risks posed by climate change.

A summary of progress and our future ambition is shown below.

Governance

Progress made

- Climate change has been embedded into Senior Management Functions, with the Finance Director having principal accountability for the development and implementation of governance arrangements and for progress of the Society's Green ambition.
- Climate change risk is considered as part of regular discussion of top and emerging risks by the Executive management, Risk Committee and Board.

Future plans

- Continue to develop Board and Executive knowledge and awareness on climate change issues.
- Develop climate change reporting capabilities and disclosures including base case data on energy usage.
- Consider and embed climate change risk in all policies where appropriate.

Strategy

Progress made

The Board has identified that the primary risk associated with climate change is that properties held as security become uninsurable or unmortgageable due to the impact of climate change. In 2020 the Society commissioned an independent assessment of the Society's loan portfolio which identified that, whilst the greatest risks were considered to be flood risk and subsidence, this only applied to c1% of the Society's mortgage assets. The Board considered that this did not pose a material risk to the Society and required no change to the Society's lending activities.

However, the Society aspires to be a sustainable business which works in a socially responsible and environmentally friendly way by minimising our carbon footprint and helping our customers and communities live more sustainably. We understand that our operations have an impact on the environment and have identified three areas of strategic focus to realise our environmental ambition.

We will seek to	How
Minimise our own carbon footprint and find ways to offset the emissions we are unable to reduce	• Improving the energy efficiency of our buildings • Conserving energy through new technology • Using alternative sources where possible • Reducing the usage of paper, water and plastic • Reducing waste
Help our members live more sustainably, particularly in respect of the homes which we help to finance	• Provide access to guidance, funding and support to help with home improvements • Work with the Building Societies Association task force to provide access to information and resources
Support our branch communities in developing and achieving their environmental goals	• Support initiatives to make homes on which we lend more energy efficient • Assess and take action to mitigate the impacts on properties considered most at risk through new products, policies and homeowner support

Over the course of the financial year the Society has completed several actions to improve energy efficiency and reduce wastage across the Society, these include:

Energy and water usage

- Installed LED lighting across our Branch network and Head Office
- Introduced occupancy lighting sensors at Head Office
- Installed smart electric meters at our branches with energy use monitored on a monthly basis
- Introduced sensors to taps at Head Office
- Installed four new electric car charging stations at our Head Office

Waste management

- Recycle all of our confidential waste material
- Introduced mixed re-cycling points at Head Office and branches
- Use follow-me printing to reduce any unnecessary printing

Materials

- Removed the use of plastic cups from all of our employee and customer water coolers
- Removed all plastic coverings from our passbooks

Products and lending

- Launched a GoGreen Further advance mortgage
- Launched a GoGreen Reward on our self-build mortgage product

Future plans

The Society has a long term aspiration for its operations to be carbon neutral and has established a comprehensive programme of activities aimed at delivering our green ambition, including:

Society	Members	Community
Establish targets and methodologies for measuring emissions	Provide information on improving EPC ratings	Funding a Green Education programme for local secondary schools
Identify activities to reduce waste, water and energy usage	Product development	Sustainability projects
Embed "green" considerations in all appropriate policies	Long term improvement in the energy efficiency of properties funded by a mortgage from the Society	

Risk management and Scenario analysis

Progress made

As outlined above, the Society commissioned externally sourced expertise to model the physical and transitional risks associated with climate change on the Society's mortgage assets. The exercise modelled the impact of climate change by 2050 in a high emissions scenario with the results factored into the Society's annual assessment of capital adequacy.

The Society is increasingly mindful of climate change risk when making business decisions and has factored consideration of climate change risk into mortgage underwriting decisions.

Future plans

The Society intends to repeat this exercise periodically and report on any trends.

Emissions

The Society is committed to identifying and reducing its energy consumption and emissions and intends to expand the collection and monitoring of emissions related data. In respect of the year ended 31 October 2021 the Society's carbon dioxide emissions are as follows:

Scope		tCarbon as tCO2e
1 - Direct emissions	Natural gas consumed and travel with company owned vehicles	45.3
2 - Indirect emissions	Purchased electricity for own use	87.6
3 – Indirect emissions	Water consumption, employee business travel and contractor owned vehicles	49.0
Total scopes 1,2 and 3		**181.9**

Figures for carbon emissions have been calculated by reference to:

Electricity and gas usage: Kilowatt hours consumed from meter readings

Travel: Business miles travelled by size of vehicle and fuel used

Water consumption: Consumption in cubic metres from meter readings

The Society expects to report on this data annually however comparison with data for the year ended 31 October 2020 has not been provided as this would not be fully representative of the Society's operations going forwards as it does not include data where employees have been working from home and therefore would have been impacted by shifts in working patterns due to the pandemic.

FINANCIAL REVIEW

In a year in which the pandemic continued to impact all areas of the business, we welcomed more new members to the Society and saw members entrust the Society with an additional £110m of savings and deposits. We continued to invest in the Society, relocating our branch in Abingdon and completing the move to a modern Head Office in Newbury.

The Society's financial performance was significantly better than plan, reflecting business conditions more favourable than anticipated. As a mutual, the Society has no shareholders and does not need to maximise profits. Our objective is to balance the requirements of offering attractive rates for savers and competitive rates for borrowers with ensuring sufficient profits are generated to both maintain the Society's strong capital position and to continue to enable investment in the Society's capability and infrastructure.

Profit after tax of £6.0m compares with £3.2m in the previous financial year and represents a strong performance which underpins the financial resilience and strength of the Society.

Key Performance Indicators

One of the Board's roles is to set the Society's strategy. The Board manages the Society and oversees delivery of the agreed strategy using a set of performance and control reports, including use of key performance indicators (KPIs). The KPIs in use throughout 2020/21, with previous year comparatives are presented in the table below together with explanatory comment.

		2021	2020
Balance sheet	**Assets**	£1.40bn	£1.23bn
	Loans to Customers	£1.06bn	£1.02bn
	Retail Shares and Deposits	£1.15bn	£1.04bn
Operating performance	**Management Expenses** as a % of Mean Total Assets	0.94	0.93
	Interest Margin as a % of Mean Total Assets	1.37	1.43
	Mortgage Arrears - on accounts two months or more in arrears	£0.15m	£0.17m
	Profit After Tax	£6.0m	£3.2m
Financial strength	**Regulatory Capital**	£89.9m	£83.4m
	Total Capital Ratio	20.9%	19.4%
	Liquid Assets as a % of Shares and Borrowings	24.5%	17.5%
Members	**Members** - numbers	73,854	72,275
	Mystery Shopping - % score achieved	94%	92%
	Complaints - as a % of members	0.07%	0.07%

Measure	Explanation
Assets	Total size of the Society.
Loans to Customers	The total value of mortgage advances provided to customers. Mortgage advances are the primary source of the Society's income and core to its purpose of helping Members with their housing needs.
Retail Shares and Deposits	The total value of savings balances held by the Society. This is the Society's primary means of funding its lending activities. The increase of £110m helped fund the reported growth in mortgage assets and with liquidity management.
Interest Margin as a % of Mean Total Assets	Difference between interest received by the Society from its mortgages and other loans less interest paid on members' deposits and other borrowings. This is the principal source of income for the Society and needs to be at a certain level to generate profit for the Society whilst providing fair and consistent interest rates to members. The decline in margin can be attributed to a reduction in the returns from mortgages and the impact of higher liquidity levels being maintained throughout the year.
Management Expenses as a % of Mean Total Assets	This ratio measures the total costs of running the Society as a proportion of the mean average total assets and is an established measure of efficiency. The Board expects this ratio to stabilise around this level as continued investment in the Society is balanced with sustainable growth.
Mortgage Arrears - on accounts two months or more in arrears	Responsible lending and individual underwriting are key to our lending and to the quality of our loan portfolio and our desire to minimise the risk of future default. The number of accounts on forbearance, including those subject to Covid-related payment deferrals, has significantly reduced with most returning to fully performing status and the level of arrears remained extremely low.
Profit After Tax	The amount earned and retained by the Society after taking into account all expenses and provision charges and taxation. Retained profits remain the primary source of capital for the Society. The Society must be profitable to demonstrate the sustainability of its business model and demonstrate financial strength to members, regulators and other stakeholders. Increased from 2020 due to higher income and lower impairment charges.
Regulatory Capital	Comprises the Society's reserves and collective provisions net of any required deductions for regulatory purposes. Retained profits are the highest quality of capital.
Total Capital Ratio	Regulatory capital expressed as a percentage of the Society's risk weighted assets (RWAs). Improvement in the ratio as the increase in retained profits of £6.0m was more than sufficient to cover the increased capital required to support the £2.4m increase in RWAs.
Liquid Assets as a % of Shares and Borrowings	The proportion of savings and deposit liabilities ("SDL") held in the form of qualifying liquid assets. Increased due to growth in retail savings and deposits and the drawdown from TFSME in advance of the scheme closure in October 2021.
Members - numbers	Strategy is to provide a strong service proposition with competitive interest rates. Growth in membership demonstrates demand for the Society's products and services.
Mystery Shopping - % score achieved	Service to members is of paramount important to the Board. Mystery shopping allows the Society to monitor the level and consistency of service provided to Members. The results continue to demonstrate the consistent delivery of excellent service.
Complaints - as a % of members	We strive to provide a high-quality service to members in everything we do. This metric allows us to track our performance and identify areas where we haven't met expectations. The percentage remains extremely low.

BUSINESS REVIEW

The Society prepares its results under Financial Reporting Standard (FRS) 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition provisions of IAS39, "Financial Instruments: Recognition and Measurement".

Overview on income statement	2021	2020
	£000s	£000s
Net interest income	17,948	16,398
Other income and charges	1,575	(314)
Administrative expenses (including depreciation and amortisation)	(12,328)	(11,263)
Loan impairment credit/(charges)	440	(752)
Profit after tax	**7,635**	**4,069**
Taxation	(1,635)	(842)
Profit after tax	**6,000**	**3,227**

Net interest income

Net interest income increased to £17.9m (2020: £16.4m) as the reduction in interest received was smaller than the reduction in the level of interest expense. Interest received fell to £25.2m (2020: £26.7m) as a 7% growth in average mortgage assets was more than offset by the full year impact of the Society's decision to lower its mortgage standard variable rate in response to the reduction in bank rate (to 0.1%) announced in April 2020. The Society also experienced an increase in the net cost of derivatives hedging fixed rate mortgages as the variable rate of interest received from the derivatives reduced in line with the decline in bank rate.

Interest expense fell to £7.2m (2020: £10.3m) as a result of a full year impact of the reduction in savings rates announced in April 2020 and a further reduction in the rates payable on certain savings accounts announced in April 2021 to balance the net flow of deposits.

Net interest margin

The Society's interest margin reduced during the year falling by 0.06% to 1.37%. The Board seeks at all times to take a balanced view of the needs of borrowing and savings members. Mortgage pricing continued to come under pressure during the year as the market adjusted to lower interest rates and through increased and concentrated competition following a return to normal operating conditions as the UK economy opened up and activity increased with the introduction of government initiatives aimed at supporting the UK housing market.

Increased swap costs and a reduction in the rates earned on the Society's liquid assets, both referred to above, also contributed to the reduction in net interest margin.

On the liability side we continued to offer competitive rates of interest to members whilst balancing the funding requirements of the Society.

Maintaining margin remains an important element of the Society's financial strategy. The Board anticipates margin will remain under threat through a continuation of pressure on mortgage pricing and its future plans take this into account.

Other income and charges

Other income and charges comprise fees and charges not accounted for within the Effective interest rate (EIR) methodology and bank charges. Also included within this heading are fair value gains on derivative financial instruments of £1,526k (2020: fair value losses of £160k).

Derivatives are used solely for risk management purposes and are an important tool for managing exposure to changes in interest rates from the Society's portfolio of fixed rate mortgages and savings products. The Society's derivatives are all economic hedges with the majority in qualifying hedge accounting relationships however, hedge accounting does not remove all volatility.

The net gain of £1,526k (2020: loss of £160k) comprises:

	2021	2020
	£000s	£000s
Accounting ineffectiveness in designated hedge accounting relationships	924	(294)
Gain on derivatives not in designated hedge accounting relationships	602	134

During the year ended 31 October 2021 the Society transitioned the benchmark reference rate of its portfolio of derivatives from LIBOR to SONIA in advance of the expected cessation of LIBOR in December 2021. Towards the end of 2021, as markets reacted to the increased risk of inflation and captured the prospect of earlier and faster increases in bank rate, increases in SONIA positively impacted the valuation of derivatives not in a qualifying hedge relationship.

These movements represent timing differences and are expected to reverse over the remaining life of the derivatives and be reflected in lower net interest charges in future periods.

Management expenses

Management expenses comprise staff costs together with all other costs and overheads necessary for the Society to function. Together with depreciation and amortisation they comprise the total operating costs for the Society.

The Board fully recognises that controlling costs is vital for the Society's competitive position in the marketplace. At the same time it is strategically critical to continue to invest to ensure the sustainability and safety of the Society and to meet competitive challenges.

In total, management expenses increased by £1,065k (9.5%) during the year:

	2021	2020
	£000s	£000s
Administrative expenses	11,303	10,692
Depreciation and amortisation	1,025	571
Total	12,328	11,263

Administrative expenses increased by over £0.6m. Expenditure on IT services increased by £0.3m driven by higher costs of operational resilience and cyber security. The Society also experienced modest increases in almost all other costs as the Society completed activities it was unable to progress in the previous financial year due to the enforced national lockdown in response to the Covid-19 pandemic, most notably investments in the branch network. Administrative expenses also include a gain of £81k in respect of the disposal of the Society's former branch premises in Abingdon partially offset by the write off of property, plant and equipment assets disposed of with the sale of the Society's former Head Office.

The increase in depreciation and amortisation for the year reflects the expected increase in annual charges for property following the Society's move to its new Head Office premises in November 2020 and, to a lesser extent, the investment made in the Society's relocated branch in Abingdon. It also includes a total impairment charge of £306k made in respect of an unoccupied portion of the Society's Head Office which is available for commercial rental and one other of the Society's freehold branch premises.

The increase in total operating costs was broadly proportionate to the Society's growth in assets representing 0.94% of mean total assets (2020: 0.93%).

Loan impairment

The Society maintains an appropriate provisioning policy designed to protect against difficulties in the housing market and makes provision for any estimated losses resulting from loans that are impaired on either an individual or a collective basis. For the year ended 31 October 2021 there was an impairment credit of £440k (2020: Impairment charge of £752k), analysed between collective and individual impairment as follows:

	2021	2020
	£000s	£000s
Collective impairment (credit) / charge	(41)	503
Individual impairment (credit) / charge	(399)	249
Total	**(440)**	**752**

At 31 October 2021 the Society held provisions totalling £1,533k (2020: £1,977k), analysed as follows:

	2021	2020
	£000s	£000s
Collective provisions	1,499	1,540
Individual provisions	34	437
Total	**1,533**	**1,977**

The total amount set aside for loan impairment has reduced, despite mortgage asset growth of £54m (5.4%), due principally to a combination of increased house prices and an improvement in both the underlying arrears performance of the Society's mortgage assets (covered in arrears section) and a reduction in amounts set aside in the previous financial year to cover uncertainties caused by Covid-19.

Since March 2020, and throughout the financial year ended 31 October 2021, the Society has been assisting and supporting its members impacted by the Covid-19 pandemic. This included offering payment deferrals to borrowers experiencing or reasonably expecting to experience payment difficulties because of Covid-19, unless it was considered by the Society and agreed by the borrower that another

option would be in the borrower's best interest, initially assisting over 1,000 borrowing members requesting a payment deferral. The Society was able to further support these customers and, where necessary, work through their personal circumstances, with the large majority being in a position to return to fully servicing their mortgages.

At 31 October 2021 there were 34 accounts (2020: 114) where clients were benefitting from a forbearance action such as temporary interest only concessions, payment plans or reduced payment concessions, which previously included members subject to Covid-19 related payment deferral arrangements. Forbearance cases represent total outstanding capital balances of £4.9m (2020: £17.8m).

Arrears management

Mortgage Arrears

The value of arrears for cases more than two months in arrears decreased from £0.17m to £0.15m with the number of borrowers in this category decreasing from 47 to 42 accounts. There were seven cases in serious arrears of twelve months or more at our year-end (2020: nine cases). The total amount of arrears outstanding on these accounts was £65k (2020: £37k) and the aggregate balances were £555k (2020: £474k).

The Society's arrears and possession statistics remain low for the industry as a whole. The low arrears level is reflective of the macro-economic environment, with ongoing low mortgage rates assisting customers with their repayment obligations. However, the position also reflects our low risk business model and prudent underwriting approach. We always seek to ensure that customers can afford to meet their mortgage repayments from the outset and throughout the full duration of their mortgage term. It is this approach that has ensured arrears levels have remained below industry average and demonstrates the effectiveness of good quality counselling and the quality of underwriting processes over many years.

At 31 October 2021 the Society had no properties in possession (2020: two).

Further details on forbearance can be found in Note 23 to the Accounts.

Taxation

The Society's corporation tax charge for the year ended 31 October 2021 of £1,635k (2020: charge of £842k) represents an effective rate of 21.4% (2020: 20.7%). Further detail is provided in Notes 6 and 18 to the Accounts.

Overview of statement of financial position

Total assets increased by 13.6% (2020: 3.8%) and at 31 October 2021 stood at £1,401m driven by a £48m increase in loans and advances to customers and a £120m increase in liquidity following growth in retail deposits and the final, planned drawdown of long term wholesale funding from the Bank of England.

As the primary source of capital generation for the Society, profit after tax of £6.0m represents an appropriate level to allow the Society to continue to grow sustainably. This is necessary to protect itself against further cost increases and margin pressures and maintain its capital strength to support investment in the business and confidently meet any future capital challenges associated with increased regulatory requirements.

	2021	**2020**
	£000s	**£000s**
Liquid assets	319,890	199,584
Loans and advances to customers	1,064,427	1,015,979
Fixed and other assets	16,835	18,119
Total assets	**1,401,152**	**1,233,682**
Shares	1,118,616	1,012,447
Amounts owed to other customers	188,072	131,030
Other liabilities	5,688	7,429
Total liabilities	**1,312,376**	**1,150,906**
Reserves	88,776	82,776
Total liabilities and reserves	**1,401,152**	**1,233,682**

Liquid assets

Liquid assets comprise cash and other high-quality liquid assets as shown on the statement of financial position. The Society maintains a prudent level of liquid assets of appropriate quality, to meet its financial obligations as they fall due, under normal and stressed conditions.

Total liquid assets increased to £319.9m (2020: £199.6m) reflecting the significant increase in customer savings and deposit balances together with the final drawdown of funds from TFSME. Liquid assets are almost entirely held in the form of deposits placed at the Bank of England with £314.0m deposited at 31 October 2021 (2020: £182.0m). As a percentage of shares and borrowings total liquid assets increased to 24.5% (2020: 17.5%).

The two key measures of liquidity introduced under CRD are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'). As at 31 October 2021 the Society had an LCR of 372% (2020: 263%) and a NSFR of 154% at the quarter ended 30 September 2021 (2020: 153%), both measures significantly in excess of the minimum regulatory requirement of 100%.

Loans and advances to customers

The Society's portfolio of loans and advances comprise almost entirely owner-occupied mortgages, including shared ownership and buy-to-let mortgages. Gross lending of £213.7m significantly outperformed the £180.8m achieved in the year to 31 October 2020, which was a year heavily interrupted and impacted by Covid-19, and sees the Society return back to the growth trend over the previous five years.

A continued focus on retention activities helped the Society report net lending of £54m (2020: £55m). Stated after the impact of mortgage repayments, voluntary redemptions and other movements, loans and advances to customers net of provisions and other interest rate and fair value adjustments totalled £1,064.4m (2020: £1,016.0m).

Strong demand for the Society's range of standard residential owner-occupied products and affordable housing products accounted for 87% of gross lending and 90% of net lending. At 31 October the Society's mortgage book comprised the following lending types:

	2021	2020
Residential owner-occupied	85.4%	85.5%
Buy-to-let	13.9%	13.7%
Other	0.7%	0.8%

The Society's book remains very high quality with an average indexed loan to value of 30% (2020: 32%) with less than 0.9% (2020: 2.1%) of the balances in the book more than 80% of the current indexed value of the properties on which their mortgages are secured. The Society's lending continues to be focused on its core operating areas with 73% of the mortgage assets within the South East and London geographical areas (2020: 75%).

Shares and deposits

Retail savings and deposits continue to be the cornerstone of our funding and it remains a strategic priority of the Society to continue offering a range of good quality savings products paying competitive rates of interest relative to available market rates.

During the year ended 31 October 2021 retail savings and deposit balances increased by £109.6m (2020: £66.1m) taking the Society's total shares and deposits balances to £1,151.7m (2020: £1,042.1m), with the Society's ISA products, Senior Saver and Existing Member Account demonstrating their continued popularity. This represented significantly higher growth than planned for and was considered as representative of the more widespread impact of Covid-19 as the personal finances of many members were boosted by reductions in spend on discretionary items. All new lending undertaken in the year was funded by new deposits.

With no further amounts able to be drawn from TFSME the Society expects to grow its stock of shares and deposit funding to fund planned mortgage growth over the medium term and in preparation for the planned and gradual repayment of amounts borrowed from the Bank of England (see below).

Wholesale funding

It is critical that the Society maintains access to funding from non-retail sources. The Society remains an active participant in the Bank of England's Sterling Monetary Framework ("SMF") which supports liquidity risk management within the Society, provides greater funding certainty and supports the overall cost of funding, all of which benefits members.

On 11 March 2020 the Bank of England launched the Term Funding Scheme with additional incentives for SMEs ("TFSME"), providing four-year funding – subject to meeting certain criteria – at interest rates at or very close to Bank Rate. TFSME replaced the previous "Term Funding Scheme" ("TFS") under the terms of which the Society had £96.4m outstanding at 31 October 2020. During the year ended 31 October 2021, having successfully applied to join TFSME, the Society refinanced its TFS borrowings onto TFSME and accessed an additional £58.6m before the Scheme closed on 31 October 2021. This additional borrowing, which matures in October 2025, will be used to support planned growth in lending.

The Society also accesses funding from other financial institutions and local authorities with typical repayment profiles of up to one year however, following the growth in retail balances and availability of longer term funding under TFSME, the Society had no requirement for such funding (2020: £5m) and repaid all amounts due during the year.

Capital

Capital consists of the Society's reserves plus collective provision balances, less intangible asset balances which are required by capital regulations to be deducted from capital. The minimum level of capital required to be held is set by the Prudential Regulation Authority (PRA). The Board is conscious that both members and the Regulator require the Society to be financially secure. Financial strength protects the Society against its principal risks and uncertainties (see page 30) and safeguards member funds. Given the continuing emphasis on high quality capital by world banking authorities, the Board sets a strategy to ensure that capital is maintained at an appropriate level to cater not only for its day to day business needs but also for significant stresses in the marketplace. The strong financial results reported for the year ended 31 October 2021 have contributed to an improvement in capital.

After regulatory deductions, the Society's regulatory capital stood at £89.9m at 31 October 2021 (2020: £83.4m)

	2021	2020
Capital:	£000s	£000s
Tier 1 Capital (after regulatory deductions)	88,370	81,824
Tier 2 Capital	1,499	1,540
Capital Resources	89,869	83,364

The increase of £6.5m comprised retained earnings for the year offset by a smaller deduction for intangible assets.

At 31 October 2021 the Society's gross capital* ratio was 6.79% of shares and borrowings (2020: 7.24%). The free capital ratio* was 6.11% of shares and borrowings (2020: 6.32%).

* As defined in the Annual Business Statement on page 78.

A measure of capital strength commonly reported amongst financial institutions is the Common Equity Tier 1 (CET1) ratio. This ratio signifies the relationship between our strongest form of capital (accumulated profits held in reserves) against assets, weighted by the level of risk they are considered to carry. The Society's CET1 increased from 19.1% at 31 October 2020 to 20.5% at 31 October 2021. The Society's leverage ratio - the ratio between Tier 1 capital and total on and off-balance sheet exposures - decreased to 6.3% at 31 October 2021 (2020: 6.6%).

Note 27 to the Accounts contains a reconciliation of capital per the Statement of Financial Position to regulatory capital. Further information on the Society's capital management can also be found in the Pillar 3 disclosures published on the Society's website.

Future outlook and uncertainties

The risk management report on pages 30 to 32 set out the principal risks and uncertainties faced by the Society.

Outlook

The UK economy has performed significantly better than originally forecasted, with unemployment not reaching the expected peaks, widespread increases in house prices and a recovery in reported GDP. However the outlook continues to remain uncertain with signs of a slowdown in economic activity coupled with expectations of a period of higher inflation, driven by shortages in both labour markets and supply chain constraints.

The Coronavirus Job Retention Scheme ("furlough scheme") and mortgage payment deferrals were two key government policy initiatives that supported the UK economy and in particular the housing market. With both schemes only recently withdrawn the longer term effects on the UK economy may not have fully materialised, with the increased risk of increased unemployment leading to mortgage payment difficulties and associated repossession action across the market and, ultimately, a fall in house prices.

The uncertain conditions can be expected to impact financial performance for the financial year ending 31 October 2022. The Board remains confident in the quality of the Society's lending and does not expect significant losses to emerge, however short term profitability could be impacted by a requirement to make additional impairment charges.

Financial markets are also expecting interest rates to increase from their present historic low. Whilst the Society is well placed to respond to any such increases, if coupled with an economic downturn, such increases could impact on mortgage affordability. The Society also expects, over the medium term, further increases in funding costs as the Society competes for a greater share of retail deposit balances.

Cost inflation is also anticipated for the forthcoming financial period, particularly in respect of employee-related expenses and energy costs, which can be expected to impact profitability at least in the short term.

Covid-19, and the potential economic consequences for the Society, has been a Board topic throughout the year with the Society's stress testing activities and assumptions updated to use a range of possible outcomes. The Board considers that the Society's strong capital position and liquidity offers protection against even the most severe economic downturn. Competition is expected to remain intense and come from a mix of established organisations, challenger banks and FinTech firms and potentially compound risks to margin and costs as a result of the need to accelerate and increase investment in technology.

The Board continues to believe that a successful future lies ahead for the Society as an independent, branch-based, technologically enabled and vibrant mutually owned business and has a programme of investments planned for these areas over the coming financial years.

Peter Brickley
Chairman

Roland Gardner
Chief Executive

20 December 2021

NON-EXECUTIVE DIRECTORS

PETER BRICKLEY
Chairman of the Board

Peter was appointed to the Board of Directors in July 2008 and was elected Chairman in February 2015. He is the Chief Information Officer for a Global beverage business and is a Trustee of the Brain and Spine Foundation. Peter is Chair of the Nomination Committee and a member of the Remuneration Committee.

CHRIS BROWN
Non-Executive Director

Chris was appointed to the Board of Directors in June 2019. She is the Group IT Director of Manpower UK. She has 18 years' experience in leading all aspects of technology and digital in commercial organisations, of which 11 have been spent in financial services. Chris is Chair of the Digital Advisory Panel and a member of the Audit and Nomination Committees.

NICOLA BRUCE
Non-Executive Director

Nicola was appointed to the Board of Directors in November 2021. Nicola is an experienced non-executive across a range of regulated sectors. She is currently the Senior Independent Director at the Anchor Hanover Group and a non-executive Board member for OFWAT, the UK water regulator, and building materials supplier, Stelrad plc. She is a Fellow of the Chartered Institute of Management Accountants. Nicola is a member of the Audit, Risk and Remuneration Committees.

FIONA PHILLIPS
Non-Executive Director

Fiona was appointed to the Board of Directors in November 2021. Fiona is an experienced lawyer and has worked for HSBC in Asia, the Middle East and London, after training at a Magic Circle Law Firm. Fiona is an expert in Fintech, legal innovation and the management of legal risk in retail and private banking. She is currently also the Interim General Counsel of the UK Infrastructure Bank. Fiona is a member of the Audit and Risk Committees.

WILLIAM ROBERTS
Non-Executive Director

William was appointed to the Board of Directors in February 2015. He is a Chartered Accountant and is Finance Director of Hastoe Housing Association. William has more than 20 years' experience in the property sector and 15 years' experience in the Housing Association sector. William is Chair of the Audit Committee, Chair of Remuneration Committee and a member of the Nomination Committee.

ALISTAIR WELHAM
Non-Executive Director

Alistair has more than 25 years' experience in marketing and digital communications having specialised in financial services, real estate, car retailing industries, and is an Executive member of the Financial Services Forum and programme faculty member of Imperial College Business School on digital transformation. Alistair also holds positions with NOW: Pensions as Director of Marketing and Communications and is a Trustee of the Brighton Student Union. Alistair is a member of the Risk and Nomination Committees and the Digital Advisory Panel. He attends and advises the Executive-led Sales, Marketing & Product Committee.

PIERS WILLIAMSON
Non-Executive Director

Piers was appointed to the Board of Directors in January 2018. He has more than 35 years' financial markets experience specialising in treasury risk management and is Chief Executive of The Housing Finance Corporation, a mutual company that lends funds to Housing Associations. Piers is Chair of the Risk Committee and a member of the Remuneration and Nomination Committees and attends and advises the Executive-led ALCO Committee.

EXECUTIVE DIRECTORS

ROLAND GARDNER
Chief Executive

Roland joined the Society in 1987 and was appointed to the Board of Directors in September 2006. He was appointed Chief Executive on 1 February 2007 and is responsible for the Society's strategic development, leading the Executive team, providing leadership and direction throughout all areas of the business and for setting and maintaining culture and standards. Roland will retire in March 2022.

LEE BAMBRIDGE
Chief Risk Officer

Lee joined the Society and the Board of Directors in July 2007 after nearly two decades in senior positions in the Aerospace industry. He is a Chartered Accountant and a Corporate Treasurer. Lee acted as the Society's Finance Director until February 2018, when he was appointed Chief Risk Officer. Lee is responsible for the Society's Risk and Compliance functions.

PHILLIPPA CARDNO
Operations & Sales Director

Phillippa joined the Society in 1996 and was appointed to the Executive team in 2007. She was appointed to the Board of Directors in February 2015 as Operations and Sales Director, with responsibility for operational strategy and performance, IT and digital development and the Society's Lending Policy. Phillippa also contributes to financial services nationally as a member of the UK Finance Mortgage Product and Service Board. Phillippa was appointed deputy chief executive in January 2021 and will become the Society's Chief Executive in March 2022.

DARREN GARNER
Finance Director

Darren joined the Society and the Board of Directors in August 2020. A qualified accountant, he has worked in financial services for over 20 years, almost half of which as a Finance Director in the building society sector. Darren is responsible for the Society's finance and treasury activities, ensuring the integrity of financial and regulatory reporting and managing the Society's liquidity, funding and capital positions. He holds executive responsibility for the premises department and, from 1 November 2021, IT and Business Change.

EXECUTIVES

JIM BENDON
Head of IT & Business Change

Jim joined the Society and the Executive team in January 2020. Jim is responsible for defining the Society's IT and Business change strategy whilst also being accountable for all technology and business change. Jim reports to the Finance Director.

MELANIE MILDENHALL
Head of Customer Service

Melanie joined the Society in 1994 and was appointed an Executive in January 2019. She is responsible for leading, developing and implementing the Society's Customer Service strategy. Melanie also heads the Branch, Mortgage underwriting and Customer Support functions and reports to the Operations & Sales Director.

ERIKA NEVES
Head of Risk & Company Secretary

Erika joined the Society in 1991 and was appointed an Executive in 2002. She is responsible for developing and implementing the Society's Risk Management Framework. Erika leads the Risk Function, is the Company Secretary and reports to the Chief Risk Officer.

CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code 2018 (the Code) sets out the principles that emphasise the value of good corporate governance to long-term sustainable success. The Code is aimed at listed companies and is therefore not specifically applicable to mutual building societies, however the Prudential Regulation Authority expects building societies, when considering their corporate governance arrangements, to have regard to the Code. This report explains how the Society applies the principles in the Code so far as its provisions are relevant to building societies.

Board Leadership and Company Purpose

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

The Board's role is one of stewardship, running the Society for the benefit of future generations of members, as well as the current members, and therefore promoting the long-term sustainability of the Society.

The Board's effectiveness is demonstrated by the Society's performance which has been achieved by a focus on strategy and risk management in an environment where constructive challenge is encouraged.

There is a schedule of matters reserved for Board decision. The Board usually meets eleven times a year, together with a day focused on strategy which consolidates the Board's strategic debates throughout the year, to discharge these duties effectively. The Non-Executive Directors meet without the Executive Directors present at least once a year.

To ensure the long-term sustainable success of the Society the Board approves the corporate plan, which includes appropriate funding plans, sets limits on delegated expenditure, and monitors the risk profile of the organisation and its capital position. The Board also has responsibility for the overall structure of the organisation, including the appointment and dismissal of Directors and the Society Secretary. The Board approves major business developments as well as changes in key risk policies. The Board is responsible for reporting annually on the performance of the Society.

The Board's establishment of a Non-Executive-led Digital Advisory panel to oversee the development of the Society's digital capability demonstrates the focus on sustainability. The Digital Advisory panel comprises two Non-Executive Directors, two Executive Directors and at least two External Advisors with Digital competence from either commercial and/or research fields.

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

The Board Chair is responsible for leading the Board's development of the Society's culture and the Chief Executive is responsible for overseeing the adoption of the culture. The Board is responsible for establishing the Society's purpose and values and creating a culture which delivers a sustainable long-term strategy. The Society's purpose statement was reviewed and updated by the Board in 2020, informed by feedback from the senior management team, employees and a panel of members to ensure alignment across the key stakeholders.

The assessment and monitoring of culture is through a suite of key performance indicators which are reported quarterly. The assessment of culture is also subject to internal audit, and in 2020 was favourably assessed as part of the HR and People Management internal audit.

The statement of purpose and Society values is on page 9.

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

The Society's governance structure includes both Non-Executive and Executive-led committees. Each business area reports progress against the Society's objectives and key risks to the relevant committee, and this is subsequently reported through to the Board. The management information presented at each committee includes a dashboard of key performance and risk indicators which are aligned to the Board's risk appetite.

The main Executive-led committees are the Credit, ALCO, Sales Marketing and Product, Customer, Business Change, Operational Resilience and Health & Safety committees. A Non-Executive Director is partnered with most Executive-led committees to enhance the Board's understanding of the Society. The Executive Director, or Non-Executive partner provide feedback to the main Board or a Board committee following each meeting.

The Non-Executive-led committees are Risk, Audit, Nomination and Remuneration and are described in more detail below:

Risk Committee

The Risk Committee meets four times a year and is responsible for overseeing the Society's Risk Management Framework (RMF) including the risk appetite, risk monitoring, policies, and strategy to ensure they are appropriate, proportionate and in line with regulatory requirements and industry best practice. The Committee currently comprises four Non-Executive Directors, Piers Williamson (Chair), Fiona Phillips, Nicola Bruce, and Alistair Welham. The Executive Directors and the Head of Risk and Company Secretary attend by invitation.

The Committee reviews the Chief Risk Officer's quarterly reports which provide an assessment of the risks within the Society. The Committee also considers the emerging risk themes through regular horizon scanning activity.

Over the course of the past year the Committee has reviewed the RMF, and the Society's principal risk policies relating to treasury and lending and reviewed the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), the Stress and Scenario testing policy and plan, and the Recovery Plan, in each case recommending the documents to the Board for approval.

Audit Committee

The Audit Committee is responsible for providing appropriate oversight, independently of the Executive, to ensure that the interests of members and the Society's other key stakeholders are properly protected in relation to financial reporting and internal control. The Committee currently comprises four Non-Executive Directors, Will Roberts (Chair), Chris Brown, Fiona Phillips, and Nicola Bruce. The Executive Directors, the Head of Risk and Company Secretary and the Compliance Manager, as well as representatives from the internal and external auditors, attend by invitation. The Committee members have specialist expertise, including Will Roberts who is a Chartered Accountant with financial experience relevant to the remit of the Committee.

During the reporting period the Committee's reviews included:

- the accuracy and completeness of the annual report and accounts;
- reports from the internal auditor and satisfied itself as to the independence and objectivity of the assurance provided;
- the second and third line assurance plans;
- the outcomes of assurance work;
- the regulatory reporting framework;
- the security of the Society's IT framework;
- oversight of internal and external audit; and
- the Society's whistleblowing controls.

Nomination Committee

The Nomination Committee is responsible for succession planning for both Executive and Non-Executive Director positions. The Committee currently comprises five Non-Executive Directors, currently Peter Brickley (Chair), Will Roberts, Piers Williamson, Alistair Welham and Chris Brown. The Chief Executive, the Chief Risk Officer and the Head of People attend by invitation.

During the reporting period the Committee assessed the balance and diversity of skills, knowledge and experience of the Board.

It also reviewed the Board Diversity Statement, the Management Responsibilities Map and the HR Policy Statement.

The Committee pays due regard to the need for progressive refreshing of the Board and has appropriate succession plans in place. At least annually, it reviews the performance of Directors individually and collectively. The Committee held additional meetings during the year to discuss the recruitment of two new Non-Executive Directors, the appointment of a new Society Chair following Peter Brickley's retirement in February 2022, and the appointment of a new Chief Executive following Roland Gardner's retirement in March 2022.

Following a rigorous selection process two new Non-Executive Directors, Fiona Phillips and Nicola Bruce, were appointed.

Piers Williamson was elected as the new Society Chair, following a selection process overseen by Will Roberts as Senior Independent Director.

Phillippa Cardno, the Operations & Sales Director, was elected as the new Chief Executive in accordance with the Committee's formal succession plans which have ensured that Phillippa has the level of competence, knowledge and experience required to perform the role effectively.

Remuneration Committee

The Remuneration Committee is responsible for setting and monitoring adherence to the Society's remuneration policy. The Committee currently comprises four Non-Executive Directors who are currently Will Roberts (Chair), Peter Brickley, Nicola Bruce, and Piers Williamson. The Chief Executive, the Chief Risk Officer and the Head of People attend by invitation.

During the year the Committee reviewed the Society's remuneration policy and approved the Directors' Remuneration Report. The Committee also considered the structure of remuneration across the Society, including pay levels and differentials, reviewed director expenses, and set and approved the performance related pay of the Executives, including the consideration of relevant risks.

The terms of reference for the Board Committees are available on the Society's website, at the AGM or by writing to the Company Secretary. Proceedings of all Committees are formally minuted and minutes are distributed to all Board members. The Chair of each Committee reports on the key matters covered at the following Board meeting. The Society maintains liability insurance cover for Directors and Officers. Attendance records for the year to 31 October 2021 are set out on page 29.

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

As a mutual organisation the Society's membership consists of individuals who are also the Society's customers. The Society is committed to dialogue with members through regular newsletters, social media and events such as the AGM attended by Directors. Members are also invited to leave feedback about the Society through Smart Money People. The feedback is shared with employees and regularly reviewed to identify service improvements. The purpose of this dialogue with members is to understand, and better serve, their needs.

The Society engages with employees in several ways. An employee engagement survey is conducted regularly, most recently in March 2020 with the next one scheduled for March 2022. The survey results are shared openly with employees and the Board and plans put in place to address any areas of improvement. In recent years this has resulted in improvements to the Society's communication channels with the introduction of our monthly employee newsletter, quarterly conference calls and an improved intranet. In addition, to build engagement, skills, and collaboration a number of working parties have been developed. During the year we established working parties for Diversity and Inclusion, vulnerable customers, and green initiatives. All employees were invited to apply to be part of a working party. Intranet polls have been used to gain additional insight into employee views and demonstrate to our employees that their views matter.

The Society's Senior Independent Director, Will Roberts, can be contacted on william.roberts@newbury.co.uk should members or employees have any concerns that cannot be raised through normal channels.

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

The overarching HR policy is reviewed and approved annually by the Board. Workforce policies and practices are regularly reviewed to ensure they remain consistent with the Society's values and the relevant legal framework. Workforce policies and practices are available for all employees to access online and the HR team are available to provide support.

It is important that all employees have a voice and feel able to provide feedback and raise concerns. One way in which the Society facilitates this is through an anonymous biennial employee engagement survey. The most recent survey was in March 2020 and it was completed by 89% of employees.

Employee wellbeing is a key focus, and the Society provides support to employees in several ways. These include access to an Employee Assistance Programme which offers confidential counselling and advice on a wide range of work and personal issues, 'stress-less' workshops and access to mental health first aiders.

The Society has a Board-approved Whistleblowing Policy, and the Board receives an annual report on whistleblowing which includes details of how it fits the Society's values. Employees undertake learning and development activity to ensure they are aware of how to confidentially raise concerns without fear of victimisation. The Society's whistleblowing champion is Will Roberts, chair of the Audit Committee and Senior Independent Director.

Division of Responsibilities

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

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

The Society's Chair, Peter Brickley, was appointed as an independent Non-Executive Director in July 2008 following a rigorous selection exercise and was elected by the other members of the Board to become Chair on 23 February 2015.

Peter has served for more than nine years as a Non-Executive Director and is retiring from the Board in February 2022. The Board have chosen Piers Williamson as his successor.

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

The Board currently comprises seven Non-Executive Directors and four Executive Directors. All Non-Executive Directors are considered by the Board to be independent in character and judgement and the Chair has confirmed, following the formal performance evaluation process, that each individual's performance continues to be effective and to demonstrate commitment to the role. All Non-Executive Directors are considered to be independent as defined in the Code.

The offices of Chief Executive and Chair are distinct and held by different Directors. The Chair is responsible for leading the Board and the Chief Executive is responsible for managing the Society's business within the Board-approved policies and delegated authorities.

The Senior Independent Director is Will Roberts. Will provides a sounding board for the Chair and serves as an intermediary for the other directors when necessary. He has responsibility for leading the appraisal of the Chair's performance and this year was also responsible for overseeing the process for the appointment of the new Chair.

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

Directors are informed of the time commitment in their letter of appointment. The Nomination Committee evaluates the ability of Directors to commit the time required for their role, prior to appointment, considering information provided by referees, and once appointed there is a formal process in place for approving new requests to take up roles elsewhere. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year. The attendance record during the year of Directors at Board and Committee meetings is set out on page 29.

The Board spends a considerable proportion of its time on strategic matters. For example, the first part of each Board meeting is usually devoted to strategic topics or to training on topics that will help Directors make more informed strategic decisions. The Board held its annual strategy day during the year, which provided the Non-Executive Directors with the opportunity to understand and challenge the Executive Directors' views about the strategic options available to the Society. Following these sessions, the Executive Directors produced a four-year corporate plan which the Board scrutinised and approved, offering constructive challenge to ensure the Society has a robust and sustainable strategy in the long-term interests of the Society and its members.

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

The Chair ensures that the Board receives sufficient information to enable it to discharge its responsibilities. The Board can access the Board-approved policies, Board manual, Committee packs, minutes and other relevant information through the online Board portal. The Society continuously improves management information to assist its Committees in discharging their terms of reference, and each Committee annually reviews the effectiveness of the Committee, including the quality and sufficiency of this information. Internal Audit reviews the adequacy of the information provided to the Board.

The Society provides a formal induction for new Directors tailored to their needs. This includes the nature of building societies, Directors' responsibilities and duties, the management information they will be provided with and how to interpret this, information on the Society and the local market, an overview of the regulatory requirements and details of significant current issues for the industry. The Chair reviews and agrees each Director's training needs on a regular basis and ensures that Non-Executive Directors are provided with internal briefings, on-line training modules and attend industry seminars and conferences in order to continually update their skills and knowledge. In addition, prior to their appointment, all new Senior Managers go through a comprehensive handover process to ensure they are fully aware of the specific responsibilities relating to their individual role.

The Company Secretary provides support on corporate governance matters and individual members of the Board have access to independent advice if required.

Composition, Succession and Evaluation

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

The Nomination Committee is responsible for succession planning and appointments for both Executive and Non-Executive Director positions.

The Board has a diversity and inclusion statement which defines its commitment and goals in respect of diversity and inclusion. Newbury Building Society recognises that a quality Board is about selecting directors who think and communicate diverse thoughts, ideas and opinions and who have diverse backgrounds and education. The Board recognises the importance diversity and inclusion has on enhancing culture which directly impacts on attracting and retaining employees and members.

The full statement can be found in the Strategic Report on page 13.

The terms and conditions of Non-Executive Director appointments are available for inspection at the AGM or at the Society's registered address.

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

The Board currently comprises the Chair, six independent Non-Executive Directors and four Executive Directors, who together provide a balance of skills and experience appropriate for the requirements of the business. Committee membership is reviewed annually to ensure there is appropriate expertise in each Committee to discharge its terms of reference.

The Society's Rules require that all Directors be submitted for election within a maximum of 16 months of, or at the AGM following, their appointment to the Board. The Rules also require that Directors must be re-elected every three years. However, the Board has resolved that in line with the recommendation of the Code, all Directors should seek annual re-election.

Non-Executive Directors will not usually serve more than nine years. The Code now recommends that a Chair should also not remain in post beyond nine years from the date of their first appointment to the Board. Although it does recognise that to facilitate effective succession planning this period can be extended for a limited time, particularly in those cases where the Chair was an existing Non-Executive Director on appointment. As explained in section F above, the current Chair, who will retire in 2022, has been in position for more than nine years, but the Board intend that the tenure of future Chairs will be in accordance with the Code.

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

There is a formal internal process to annually assess the performance and effectiveness of the Board members. This includes the Chair of the Nomination Committee appraising the Chief Executive's performance and the Committee reviewing the other Executive Director appraisals. The contribution of individual Directors is evaluated by the Chair using questions based on those recommended in the FRC guidance on Board Effectiveness and taking into account the views of the other Directors. The Chair's performance is evaluated by the Non-Executive Directors facilitated by the Senior Independent Director considering the views of the Executive Directors. Each Committee reviews its effectiveness annually and reports the outcomes to the Nomination Committee. Then with input from the Nomination Committee, the Board evaluates its overall performance and that of each Committee. This process is used to improve the effectiveness of Directors and the Board collectively, to identify training needs and to inform the decision whether to submit a Director for re-election.

The evaluation of Board effectiveness is externally facilitated on a periodic basis. The next external assessment has been postponed to 2022 because of Covid-19 and was replaced by an internal assessment in the interim in 2021.

Audit, Risk and Internal Control

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

The Audit Committee comprises three independent Non-Executive Directors. The Executive Directors, the Head of Risk and Company Secretary and the Compliance Manager, as well as representatives from the internal and external auditors, attend by invitation. The Chair is not a member but may attend by invitation. It meets four times a year and once a year the external and internal auditors meet the Committee without the presence of the Executive Directors.

The Audit Committee report opposite explains how it discharges its responsibilities in respect of internal and external audit functions, and the integrity of financial and narrative statements.

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

The Board believes that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The responsibilities of the Directors in relation to the preparation of the Society's accounts are contained in the Directors' Responsibilities on page 35. The Audit Committee Report opposite describes the main areas of accounting judgement exercised.

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

The Board has identified the principal risks and uncertainties that could threaten its business model, future performance, solvency or liquidity. These risks, together with the way in which they are mitigated, are explained in the Risk Management Report on pages 30 to 32. The Board, assisted by the Risk Committee, is collectively responsible for determining risk appetites, strategies for risk management and control as described in the Society's Risk Management Framework. Senior management is responsible for designing, operating and monitoring risk management systems and controls. The Society has a second-line Risk and Compliance team, headed by the Chief Risk Officer, which provides challenge and oversight of the first-line. The Executive Directors hold quarterly meetings to review the risk and control environment in their respective areas. The Risk Committee assesses the adequacy of the risk-related output of this process and the Society's internal auditor, provides independent and objective assurance regarding the design and performance of risk management systems and controls.

Remuneration

The Directors' Remuneration Report on pages 32 to 33 explains how the Society applies the Code Principles relating to remuneration.

Peter Brickley
Chairman
20 December 2021

AUDIT COMMITTEE REPORT

This report explains how the Society applies the principles of the UK Corporate Governance Code 2018 (the Code) relating to the operation of the Audit Committee and the system of internal control. The report details how the Committee discharged its responsibilities in line with the provisions of the Financial Reporting Council's 'Guidance on Audit Committees' (April 2016). It details the significant issues reviewed and concluded during the year including the Committee's assessment of those areas on which accounting judgement was exercised. The Audit Committee met four times during the year and in addition met with the external and internal auditors without the Executive Directors present.

Audit, Risk and Internal Control

Audit Committee and Auditors

Code Principle:

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

The Society recognises the importance of good internal control systems in the achievement of its objectives and the safeguarding of its assets. Good internal controls also facilitate the effectiveness and efficiency of operations, help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. Management is responsible for designing an appropriate internal control framework whereas the Audit Committee is responsible for ensuring that the Board receives appropriate assurance over the effective operation of this framework. In order to achieve this the Audit Committee reviews the effectiveness of the Internal Audit and Compliance functions, approves their annual plans and reviews performance against these plans on a quarterly basis.

The Committee also reviews their material findings and instigates plans to remedy any shortcomings. Consistent with these responsibilities, the Committee undertook the following activities during the year to satisfy itself over the robustness of the internal control framework:

Compliance assurance

The Society's Compliance function provides second line assurance on activities across the Society. The outputs of the Compliance function's activities are reported to the Committee, together with progress updates on management's implementation of any findings. During the year the Committee approved the Compliance function's annual plan of work which sets out the reviews the function intends to perform and the associated scopes of those reviews. The Committee reviewed the Financial Crime Prevention Policy, which sets out how the Society reduces the risks of money laundering, terrorist financing, sanctions and fraud. The Committee also considers the annual Money Laundering Reporting Officer's report.

The Committee satisfied itself that the Compliance function remained adequately resourced to provide appropriate levels of assurance.

Internal Audit

The Society's Internal Audit function, which is outsourced to EY, provides independent assurance to the Board, via the Audit Committee, on the effectiveness of the internal control framework. The information received and considered by the Committee during 2020 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework that met the principles of the Code. The Audit Committee is also responsible for agreeing the annual budget for Internal Audit and for approving its annual risk-based plan of work. Internal Audit provides the Committee with reports on material findings and recommendations as well as updates on the progress made by management in addressing these findings, including verification that actions have been accurately reported as complete. The Committee is satisfied that, over the course of 2021, Internal Audit had an appropriate level of resources in order to deliver its plan of work and that it discharged its responsibilities effectively.

External Audit

The Audit Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the External Auditor (currently Deloitte LLP), reviewing its effectiveness, agreeing its remuneration and terms of engagement and making recommendations to the Board on their appointment, re-appointment or removal. As part of the external audit process, Deloitte provides the Society with internal control matters which have come to its attention during the audit. No material control weaknesses were included in such reports. The Committee is also responsible for monitoring the performance, objectivity and independence of the External Auditor, ensuring that the provision of non-audit services is appropriate and in accordance with the Financial Reporting Council's Ethical Standards. During the year the External Auditor was engaged by the Society to complete a review of the Sterling Monetary Framework as requested by the Bank of England. No other non-audit services were undertaken. In order to retain independence and objectivity, the Society's policy is to tender for audit services on a regular basis and at least every 10 years. The external auditors are required to rotate every 20 years. Deloitte LLP have held the role since February 2018.

Other activities

During the year the Committee also satisfied itself that the Society's whistleblowing arrangements are operating effectively and reassured itself as to the effectiveness of the Society's IT controls and Regulatory Reporting framework.

Code Principle:

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

The Directors are responsible for preparing the Annual Report and Accounts. At the request of the Board, the Committee considered whether this Annual Report is fair, balanced and understandable and whether it provides the necessary information for members, and other stakeholders, to assess the Society's position and performance, business model and strategy. To do this, the Committee considered the information published in the Annual Report and Accounts and the accounting policies adopted by the Society, the presentation and disclosure of financial information and, in particular, the key judgements made by management in preparing the financial statements.

In evaluating this year's financial reporting process, the Committee noted that senior members of the Board and executive management team are involved at an early stage in agreeing the overall tone and content of the Annual Report and Accounts, and that members of the Executive Committee and the Board review, comment on and challenge various drafts of the Annual Report and Accounts as part of a robust verification process.

The Committee also paid attention during the year to the following matters which are important by virtue of their potential impact on the Society's results, particularly because they involve a high level of complexity, judgement, or estimation by management:

Provisioning for loan impairment

The Committee monitored loan impairment provisions and considered the impact of the approach to forbearance adopted when managing the Society's mortgage portfolio. It considered the economic impacts of Covid-19 on the mortgage portfolio and other key assumptions contained in the Society's provisioning model on the level of provisions made, most significantly the assumptions for probability of default, and the relevant disclosure in the Accounts. The Committee examined and challenged the assumptions adopted and is satisfied with the level of impairment provisions made for the mortgage portfolio.

Effective Interest Rate

Interest income on the Society's mortgages is measured under the effective interest method, as explained in the Accounts. This method includes an estimation of mortgage product lives which is based on observed historical data and Directors' judgement. During the year, the Society's estimate of mortgage lives has been updated to reflect changes in market conditions and customer behaviours, including any impact of Covid-19. The Committee has examined the above changes, including the revised mortgage life estimates, and is satisfied that the estimates and accounting treatment are appropriate.

Hedging

The Society issues fixed rate mortgage products which are mainly funded from variable rate savings. To mitigate the risk of a rise in funding costs the Society enters into interest rate swaps (derivatives) and uses hedge accounting to offset a change in the fair value of swaps against changes in the fair value of the corresponding fixed rate mortgages. During the year the Committee reviewed management's process to manage hedge accounting including the transition from LIBOR to SONIA, the fair valuing of hedges and the underlying hedged items, as well as the processes for identifying and designating derivatives as effective.

As a result of its enquiries the Committee is satisfied that the processes followed for hedge accounting have been applied in accordance with IAS 39.

Property Valuation

The Society's freehold properties are included in the balance sheet at fair value. The Committee considered the valuations of the Society's freehold properties.

Going Concern

This involves rigorous consideration, based on reports as requested by the Committee, of the Society's current and projected liquidity and capital positions, together with the potential risks (for example strategic (including Covid-19), credit risk, liquidity risk, operational risk and conduct risk) which could also impact the business, as well as consideration of potential stress scenarios. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

Statutory Audit

The Committee considered matters raised during the statutory external audit, through discussion with senior management of the business and the external auditor and concluded that there were no adjustments required that were material to the financial statements.

Considering the enquiries above, the Committee is satisfied that, taken as a whole, the 2021 Annual Report and Accounts is fair, balanced and understandable and provides a clear and accurate presentation of the Society's position and prospects.

Will Roberts
Chair of the Audit Committee
20 December 2021

Governance

Directors' Attendance Record

The attendance record for Board members is shown in the table below. The table shows the actual number of meetings attended with the number of meeting for which the directors were eligible to attend.

Board Member	Board	Audit	Risk	Remuneration	Nomination
Non-Executive					
Peter Brickley	11 (11)			4 (4)	4 (4)
Chris Brown	11 (11)	4 (4)			
Sarah Hordern	9 (11)	2 (3)		4 (4)	4 (4)
William Roberts	11 (11)	4 (4)		1 (1)	4 (4)
Zoe Shaw	10 (10)		4 (4)		
Alistair Welham	11 (11)		4 (4)		
Piers Williamson	11 (11)		4 (4)	4 (4)	4 (4)
Executive					
Roland Gardner	11 (11)	4 (4) A	4 (4) A	4 (4) A	4 (4) A
Lee Bambridge	11 (11)	4 (4) A	4 (4) A	4 (4) A	4 (4) A
Phillippa Cardno	11 (11)	4 (4) A	4 (4) A	3 (3) A	3 (3) A
Darren Garner	11 (11)	4 (4) A	4 (4) A		

RISK MANAGEMENT REPORT

Risk management framework

The Society operates in a business environment that contains a wide range of financial and non-financial risks which are managed under the Risk Management Framework (RMF). The RMF documents the Society's formal structure for managing risk and the Board's risk appetite.

The Board is ultimately responsible for the effective management of risk. The RMF, including the risk appetite statement, and principal risk policies are approved by the Board following a review and recommendation by the Risk Committee. The Board delegates oversight of the implementation of the RMF to the Risk Committee. The Chief Risk Officer, who is an Executive Director on the Board, oversees the effective implementation of the RMF, including the review of risks and uncertainties in the business.

The Society adopts a three lines of defence model which ensures a clear separation between the ownership and management of risk and controls (first line), oversight, support, and challenge (second line) and internal audit assurance (third line).

Risk governance arrangements

The Board approves the policies which set out how the principal risks are managed. The Risk Committee's terms of reference detail which policies are reviewed before recommendation to the Board for approval. These policies relating to credit risk, liquidity risk and financial risk management are reviewed and approved by the Board at least annually.

Each principal risk has a Risk Owner within the Society and there are Risk Champions in each business area to support the effective operation of the RMF.

Risk culture

The risk culture is normal behaviour exhibited by all employees regarding risk awareness, risk taking, risk management and treating customers fairly. The Board sets the tone from the top with Risk Owners and Risk Champions implementing this tone throughout the Society. The overall tone set by the Board is underpinned by various policies and these policies enable Risk Champions, and their teams, to disseminate the Society's culture and values across all areas of the business. The Risk team conduct an annual risk culture assessment which is reviewed by the Risk Committee and, where considered necessary, actions are implemented.

Principal Risks and Uncertainties

The principal risks to which the Society is exposed, along with how they are controlled and the associated policies, are set out below and remain unchanged from last year.

The Society has a cautious risk appetite across all its principal risks. The Risk Committee reviews both the key risk indicators for each principal risk and the output from a range of stress and scenario testing on a regular basis to ensure that risk levels remain within the Society's agreed risk appetite. The Society maintains strong levels of capital and liquidity to provide financial resilience.

Strategic Risk

Strategic risk is the risks resulting from the Society's strategic decisions which have the potential to reduce the Society's profit levels and contribution to capital, thereby threatening the financial strength of the Society.

In particular, it is the risk on the Society's business model and strategic objectives as a result of macroeconomic, regulatory, political or other factors.

Mitigation

The Board will not seek out strategic options which have a potential to create losses to capital, although will consider options that could result in reduced profit in the short to medium term provided that the capital ratio remains within appetite.

During the year, the Board has undertaken a full review of the Society's strategy. The updated strategy is reflected in the Society's latest corporate plan which was reviewed by the Board and Risk Committee to ensure it meets the agreed risk appetite.

Credit risk

Credit risk is the risk that mortgage loan customers or treasury counterparties default on their obligation to repay the Society.

Mitigation

Mortgage credit risk is controlled in accordance with the Board-approved Lending Policy which is aligned with a cautious risk appetite. Lending is done on prudent terms, is maintained within carefully controlled limits and is subject to regular Credit Committee and Board reviews. The Board reviewed and updated the Lending Policy during the year to ensure the risk profile of new lending remains within the cautious risk appetite.

Whilst the policy allows lending in a limited number of niche areas which may be considered to have a greater degree of risk, this is mitigated by the fact that these are areas where the Society either has significant experience or has set non-material limits. In addition, each mortgage application is carefully underwritten by an experienced team.

Counterparty credit risk is controlled through adherence to the Board-approved Treasury Policy which reflects a cautious risk appetite. It is regularly reviewed by the Assets & Liabilities Committee with oversight by the Risk Committee. The Policy defines prudent limits, relating to quality and quantity, on credit exposures to single counterparties and groups of counterparties.

The counterparty limits are developed predominantly by reference to credit ratings and other market data and any new counterparties are approved by the Assets & Liabilities Committee in accordance with the Treasury Policy.

Liquidity risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, ultimately resulting in the inability to support normal business activity and failure to meet regulatory liquidity requirements. This includes the funding risk of not being able to find new funding to replace outflows or maturing facilities.

Mitigation

The Liquidity Policy is contained within the Treasury Policy, which is reviewed by the Assets & Liabilities Committee and the Risk Committee, and annually approved by the Board. Liquidity is maintained within the Board-approved risk appetite limits.

Regular stress tests are conducted which help to determine the level of liquidity required to withstand all reasonably foreseeable liquidity stresses. The Society also has a contingency funding plan in place to manage sudden or extreme outflows. The results of stress testing and the liquidity position are reported to the Assets & Liabilities Committee and the Risk Committee.

Market risk

Market risk includes interest rate risk and basis risk. Interest rate risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. Basis risk is the risk that assets and liabilities re-price on a different basis as interest rates change.

Mitigation

Market risk is controlled by setting Board-approved limits to control non-administered business (e.g. fixed rate mortgages) therefore ensuring most assets are on an administered interest rate. To mitigate the risks associated with non-administered assets, hedging contracts are used in accordance with the Board-approved Treasury Policy. Market risk is regularly reviewed by the Assets & Liabilities Committee. A detailed analysis of the Society's interest rate position at 31 October 2021 can be found in note 25 on page 74.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error, or external events. Therefore, operational risks can potentially arise from all the Society's activities, across all business areas.

Mitigation

The Society has robust processes and controls in place for all operational areas, which are designed to mitigate this risk and the Society uses software to help manage the risk by providing a single source of data for risk events, actions, horizon scanning and controls testing.

Whilst effective operational risk management will help to mitigate the likelihood and impact of operational risk, it is not possible to eradicate the risk. To ensure operational resilience, the Society protects against disruption resulting from operational risk events (such as cyber or data loss) by having controls in place to reduce risk exposures (prevention), having clear tolerances on what can be absorbed and having actions in place to respond beyond these points (response), and having clear plans and arrangements in place to respond to and recover from incidents and to learn and adapt from operational disruption (recovery). A range of metrics and risk limits are used to monitor the Society's ability to recover from an operational risk event in line with the defined risk tolerances for key business services.

The Board is aware of the significant operational issues that have occurred in other businesses, particularly relating to cyber attacks. The security of systems has been a key focus in recent times, with ongoing developments to ensure that we continue to meet best practice requirements. Over the past year the Society has strengthened its cyber security position, including engaging with a new security provider for increased monitoring and threat prevention.

The Operational Resilience framework, which includes the Operational Risk and Resilience Policy, the Business Continuity Plans and the Third Party Arrangements Policy, is reviewed by the Operational Resilience Committee. The Executive Committee and Risk Committee receive management information relating to operational risk and resilience. The Audit Committee is responsible for assessing the effectiveness of the system of inspection and control. The Operational Resilience Framework continues to be enhanced with the objective of meeting the new regulatory requirements effective from March 2022.

Legal and Regulatory risk

Legal and Regulatory risk is the risk of fines, public censure, limitations on business or restitution costs arising from failing to understand, interpret, implement, and comply with legal and regulatory requirements.

Mitigation

Legal and Regulatory change is closely monitored and reported to the Executive Committee and Board. Horizon scanning for legal and regulatory change is well embedded to ensure timely changes are made to any announced changes of law or regulation.

Conduct risk

Conduct risk is the risk of developing systems, behaviour and attitudes within the Society which do not deliver fair customer outcomes, or which create an environment which does not result in staff being open, honest, and doing the right thing. This can result in the risk of reputational loss, customer redress or regulatory fines.

Mitigation

The Society is committed to treating customers fairly and this is underpinned by the Society's Conduct Risk Framework, which is regularly reviewed. The Customer Committee monitors conduct risk at an operational level, with oversight provided by the Risk Committee. Over the past year the Society has continued to support borrowers affected by Covid-19 with payment deferrals and other types of forbearance. Customers are invited to leave feedback via Smart Money People, and this is regularly reviewed and acted upon to ensure customers continue to receive high levels of service and good outcomes. In 2022 the Society will seek to renew its Institute of Customer Service accreditation.

Risk Outlook

Covid-19

Covid-19 had a significant impact on the economy from March 2020, with falling levels of GDP and rising unemployment, although from the middle of 2021 there was a significant recovery. As highlighted in last year's accounts the consequences of the pandemic potentially could have had a material impact on a number of the Society's principal risks, namely strategic, credit, market and operational. Throughout the last year these risks have not developed in any material way. Whilst there continues to be the possibility of an impact, for example due to the removal of the Government support schemes, future lockdowns/restrictions or stagflation, the Society has undertaken rigorous stress-testing of the potential outcomes, the results of which show that it has sufficient capital resources to withstand a range of severe stress scenarios.

Senior Management changes

The Society Board Chair and Chief Executive are both retiring in 2022 which potentially presents a continuity risk to the business. This is mitigated by the fact that the new Chair and Chief Executive are both existing Board members. The new Chief Executive, Phillippa Cardno, has been an Executive Director since 2015 and has held a number of senior management positions within the Society. The Chair-elect, Piers Williamson, joined the Board in 2018 and he currently chairs the Society's Risk Committee and is a member of the Remuneration and Nomination Committees.

Emerging risks

Emerging risks are threats for which the potential impact upon the Society is not yet possible to reasonably assess. Timely identification and monitoring of these emerging risks can enable the Society to take steps to begin to mitigate against the emerging threat. The Society has identified a number of risks which may have a future impact on the Society. These include climate change (see below), building material issues with mortgaged properties and changes to the shared ownership model that have been introduced. These risks will be transitioned into active risk management if they develop to a state where they can be reliably assessed.

Climate change

The Society also recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. In 2020, the Society commissioned a report to assess the risks to the mortgage portfolio from climate change, this did not highlight any concerning areas of risk within the portfolio. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

Piers Williamson
Chair of the Risk Committee
20 December 2021

DIRECTORS' REMUNERATION REPORT

This report explains how the Society applies the principles of the UK Corporate Governance Code April 2018 (the Code) relating to remuneration. It also explains how the Society's remuneration policy complies with relevant regulations including the Remuneration Part of the Prudential Regulation Authority's Rulebook and the Financial Conduct Authority's Remuneration Code for dual regulated firms (SYSC 19D). The Remuneration Committee has determined that, at 31 October 2021, all of the Non-Executive Directors and Executive Directors, as well as the other members of the Executive management team, were classified as Material Risk Takers (MRTs) and subject to the Remuneration Code. The Remuneration Committee does not consider that any employees who are not members of the Board or the Executive management team should be classified as MRTs.

The Level and Components of Remuneration

Code Principle:

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

The Society's objective when setting remuneration is to ensure that it is in line with the Society's business strategy, risk appetite and long-term objectives, by being consistent with the interests of the Society's members. Remuneration is set at a level to retain and attract individuals of the calibre necessary to operate and meet the Society's objectives.

Executive Directors Emoluments

The remuneration of the individual Directors is detailed in note 8 on page 53. The remuneration reflects the Directors' specific responsibilities and comprises basic salary, annual performance related pay and various benefits detailed below.

Basic Salaries

Basic salaries are reviewed and benchmarked annually in line with comparable organisations across location, industry and job function.

Performance Related Pay Scheme

The Society operates two performance related pay schemes with objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe:

1. An annual scheme based on the Society's key performance measures of profitability, control of costs, risk management controls, growth in mortgages, and increases in member numbers. A maximum of 10% of salary (prior to any salary sacrifice) can be earned annually for achievement of these targets, which includes a maximum 3.5% of salary based on personal contribution.
2. A three-year medium term incentive plan based on business performance benchmarked against peer group Societies and team and individual performance based on strategic development of the business. This pays a maximum of 15% of salary after three years (equivalent to 5% per annum) and includes a maximum 3% based on individual contribution.

Performance related payments are not pensionable and are paid in cash through payroll.

As a mutual, the Society has no share option scheme, and none of the Directors has any beneficial interest in, or any rights to subscribe for shares in or debentures of, any connected undertaking of the Society.

Benefits

The Society makes a contribution of up to 20.25% of salary (before salary sacrifice where applicable) to Executive Directors' private pension arrangements.

Executive Directors receive other benefits comprising private healthcare, death in service and income protection insurance. The Society does not provide concessionary home loans to Directors.

Executive Directors Contractual Terms

Roland Gardner, Lee Bambridge, Phillippa Cardno and Darren Garner each have a service contract with the Society, terminable by either party giving six or twelve months' notice.

The Society meets contractual obligations for loss of office and whilst the Remuneration Committee has discretion to provide better terms, this is disclosed to Members if used.

An Executive Director is permitted to take a role as a Non-Executive Director with another firm provided the firm is not a competitor and the associated time commitment can be accommodated. Any such arrangements must be agreed in advance by the Nomination Committee. There were no new arrangements of this nature entered into during the year.

Non-Executive Directors

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations. Non-Executive Directors chose to forego the recommended increase in 2021 due to the uncertain trading conditions as a result of Covid-19, and therefore their fees have not increased since 2019.

Remuneration comprises a basic fee with supplementary payments for the Chair of the Board and the other Non-Executive Directors classified as Senior Managers, for regulatory purposes, to reflect the additional responsibilities of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not participate in any incentive schemes or receive any other benefits. Non-Executive Directors have letters of appointment and these are available for inspection prior to the AGM or at the Society's registered address.

Other Material Risk Takers

The Remuneration Committee is also responsible for determining the terms and conditions of other members of senior management, who are considered Material Risk Takers, in consultation with the Chief Executive. These are the Head of Customer Service, the Head of Risk & Company Secretary, the Head of People and the Head of IT & Business Change. These individuals are subject to the same variable pay performance targets and rewards as the Executive Directors and they also receive pension contributions from the Society of up to 15.25% of salary (prior to any salary sacrifice).

The Procedure for Determining Remuneration

Code Principle:

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

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

The remuneration of the Non-Executive Directors, Executive Directors and other members of senior management is overseen by the Remuneration Committee, which consists of four Non-Executive Directors and meets four times a year. During the reporting period the composition of the Committee satisfied the Code provisions regarding independence. The Chief Executive, Chief Risk Officer and Head of People attend by invitation but take no part in the discussion of their own salaries. Minutes of the Committee meetings are distributed to all Board members.

The Remuneration Committee reviews the Society's Remuneration Policy annually and maintains a list of the Society's Material Risk Takers detailing the composition of their respective remuneration. In setting remuneration, the Committee considers the remuneration levels and structure provide by building societies that are similar in size and complexity. Periodically, a report may be commissioned from external consultants to assist in this process. The Committee did not use the services of an external consultant during the reporting period. The Committee also ensures that variable remuneration does not undermine the objectivity of the risk and compliance functions.

Non-Executive Directors:

The fees payable to Non-Executive Directors are proposed by the Chief Executive, taking into consideration peer comparison and the views of the other Executive Directors. The proposed fees are then approved or otherwise by the Remuneration Committee with the Chair's fees being considered by the Committee in the absence of the Chair. As detailed above, during the year the Remuneration Committee decided not to accept the Chief Executive's recommendation of a fee increase and therefore the fees have remained at the same level since 2019.

Executive Directors

The performance related pay schemes are designed to encourage the achievement of key business objectives relating to a balance of financial performance, customer service and sustainable growth over a multi-year timeframe. In setting variable remuneration targets the Committee considers the balance between the fixed and variable components of remuneration to ensure that the ratio is appropriately balanced and in line with the risk profile of the Society. The Committee believes that the performance related targets set for 2021 were suitably balanced and hence risk adjusted.

The Remuneration Committee assesses whether any performance related payments should be made taking into account reports, where applicable, from the Risk and Compliance functions.

AGM Vote

Whilst a binding vote on Remuneration Policy is not considered appropriate for a building society of our size and nature, if more than 25% of the turnout vote against the report, the Remuneration Committee will take steps to ascertain and address the concerns of the Membership.

On behalf of the Committee, I recommend that you endorse our report.

Will Roberts
Chair of the Remuneration Committee
20 December 2021

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society for the year ended 31 October 2021. Certain information required to be included in a Directors' report can be found in the Strategic Report, which starts on page 9. The Directors' Report should also be read in conjunction with the Chairman's Statement and Chief Executive's Review.

Directors

The following served as Directors of the Society during the year and to the date of this report.

Non-Executive directors	
Peter Brickley	Chairman
Chris Brown	
Nicola Bruce	Appointed 1 November 2021
Sarah Hordern	Resigned 31 October 2021
Fiona Phillips	Appointed 1 November 2021
William Roberts	
Zoe Shaw	Resigned 5 October 2021
Alistair Welham	
Piers Williamson	

Executive directors	
Roland Gardner	Chief Executive
Lee Bambridge	Chief Risk Officer
Phillippa Cardno	Operations & Sales Director
Darren Garner	Finance Director

Biographies of the Directors appear on pages 22 and 23 and their attendance at meetings of the Board and Board Committees is set out in the Corporate Governance report on page 29.

None of the Directors had any beneficial interest in any connected undertaking of the Society as at the year- end. The Society maintains liability insurance cover for Directors and Officers as permitted by the Building Societies Act 1986. There are no Directors' indemnities.

In accordance with the requirements of the new Corporate Governance code, to which the Society has due regard, all the Society's Directors are seeking re-election to the Board at the Annual General Meeting with the exception of:

1. Peter Brickley, who retires from the Board on 23 February 2022; and
2. Nicola Bruce and Fiona Phillips who are standing for election, having both been appointed to the Board since the last AGM.

Other Matters

Creditor Payment Policy

Please see page 14 of the strategic report.

Charitable Donations

During the year charitable donations of £63k were made to a number of organisations (2020: £59k).

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 31 October 2021 (2020: £nil).

Stakeholder Engagement

Contained within the strategic report on pages 11 to 15.

Financial Risk Management Objectives

Contained within the risk management report on pages 30 to 32.

Principal Risks and Uncertainties

Contained within the strategic report.

Events Since the Year-End

The Directors do not consider that any event since the year-end has had a material effect on the financial position of the Society as disclosed in the Annual Accounts.

Disclosure Requirements under CRD IV Country by Country Reporting

Please see Note 28 to the Accounts.

Statement of Disclosure 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 audit information of which the Society's auditor is unaware; and
- Each Director has taken all the steps that should be taken by a director in order to be aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Auditor

Deloitte LLP are eligible for re-appointment and have offered themselves for re-election. The Board is recommending that Deloitte LLP are re-appointed as external auditors of the Society for the financial year ending 31 October 2022. A resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society.

Going Concern

The Directors are required to consider whether the Society will continue as a going concern for a period of twelve months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period.

The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to Covid-19.

After considering all of this information, together with available market information and the Directors' knowledge and experience of the Society and markets in which it operates, after making the necessary enquiries the Directors are satisfied that the Society has adequate resources to continue in business for at least the twelve-month period from the signing of the accounts. Accordingly, the accounts continue to be prepared on a going concern basis.

Pillar 3 Disclosures

The Society is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. These are available on the Society's website.

Peter Brickley, Chairman
20 December 2021

DIRECTORS' RESPONSIBILITIES

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Strategic Report, Directors' Report and the annual accounts

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

The Building Societies Act (the Act) requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS102 The Financial Reporting Standard as it applies to the UK.

The annual accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing the Society's 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;
- prepare the annual accounts, on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

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 Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 both the Prudential Regulation Authority and the Financial Conduct Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEWBURY BUILDING SOCIETY

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Newbury Building Society (the 'Society'):

- give a true and fair view of the state of the Society's affairs as at 31 October 2021 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in members' interests;
- the cash flow statement; and
- the related notes 1 to 29.

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

2. 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 financial statements section of our report.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Society for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition of interest receivable and similar income; and • Loan loss provisioning Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Society's financial statements was £452,000 which was determined on the basis of 0.5% of net assets.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have increased our basis for materiality from 0.325% to 0.5% of net assets for FY21, in order to align our basis more closely to those observed at peers.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the assumptions underpinning forecast projections;
- Assessing management's four-year business plan and all regulatory correspondence;
- Assessing previous forecasting accuracy by reviewing post year end performance;
- Involving a prudential regulation specialist to assess the ICAAP and ILAAP; and
- Assessing the disclosures in the financial statements surrounding going concern and the principal risks and uncertainties that the Society is facing.

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 Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements 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.

5. Key audit matters

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

5.1. Revenue recognition of interest receivable and similar income

Key audit matter description	The main revenue stream within the Society is interest receivable and similar income primarily derived from loans and advances to customers. The interest receivable and similar income recognised during the year was £25.2m (FY20: £26.7m). The directors elect to apply the recognition and measurement criteria in line with IAS 39 as part of their adoption of FRS 102 to recognise interest income using the Effective Interest Rate ('EIR') method for loans and advances to customers. The EIR method requires the modelling of all cash flows, including directly attributable fees and costs, over the shorter of the behavioural and contractual life. The key assumption in the EIR models is the estimation of redemption rates used in the calculation of the behavioural lives of the mortgages and thus timing of the expected future cash flows over these lives. There is therefore judgement involved in the determination of interest receivable and similar income using the EIR method. We identified a key audit matter that the interest income may be inappropriately recognised whether due to fraud or error. Management's accounting policies are detailed in note 1.2 and 1.4 to the financial statements while the significant judgements involved in the revenue recognition process are outlined in note 1.13, with note 2 quantifying the interest receivable and similar income recognised during the year. The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 29.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate behavioural life assumptions being used within the EIR model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the EIR balance. We challenged the appropriateness of the behavioural lives adopted by management by reference to historical customer redemptions, over which we performed accuracy and completeness testing over the underlying data on a sample basis.

	Additionally, we challenged any amendments made to the behavioural lives by management during the course of the year, based on recent customer redemption activity. Furthermore, we assessed the adequacy of management's disclosures regarding the increased risk of expected future cash flows being materially higher or lower than forecasted, based on the level of market uncertainty being higher than normal. As part of our wider assessment of the key audit matter we independently recalculated a sample of EIRs and tested the adjustment posted to recognise revenue over the behavioural life on a sample of loans. We also reviewed the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Society's EIR models. We tested the inputs which are used to determine revenue by agreeing a sample of customer loans back to underlying source data.
Key observations	We concluded that the behavioural lives used within management's revenue recognition process were reasonable and the models to be working as intended. We determined the accounting for revenue to be materially appropriate, acceptable and in line with the requirements of IAS 39.

5.2. Loan loss provisioning

Key audit matter description	Under IAS 39, the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. The Society holds £1,067.8m (FY20: £1,013.4m) of loans and advances to customers on which a loan loss provision of £1.5m (FY20: £2.0m) has been provided for at year end. The provision comprises a collective provision for losses incurred but not reported and a specific provision for loans where there has been an observable impairment trigger. Key assumptions in determining the collective provision include the use of probability of default ("PD") assumptions. Given the high level of management judgement required coupled with historically low levels of arrears, we identified a key audit matter in relation to the valuation of the collective provision and in particular the PD assumptions, including the possibility of management bias on the basis that amendments to these assumptions could give rise to a material misstatement due to fraud or error. Management's accounting policies are detailed in note 1.5 to the financial statements while the significant judgements involved in loan loss provisioning are outlined in note 1.13, with note 12 quantifying the loan loss provision at year end The area of significant judgement is discussed by the Audit Committee as detailed in the Committee's report on page 28.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning model. In conjunction with our IT specialists, we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the provision. We challenged the appropriateness of the key assumptions used within the collective provision, in particular the PD by reference to the Society's historical loss rate data and third-party ratings agency data. Additionally, we determined whether the provision held is commensurate with the loan book size and inherent risk using coverage ratios obtained from peer group benchmarking. As part of our wider assessment of the key audit matter, we independently recalculated the loan loss provision for a sample of customer loans and compared the output to the amount provided by management. We also tested the accuracy and completeness of the inputs which were used to determine the loan loss provision back to underlying source data. We tested the completeness of the loan population identified by management as having incurred an impairment event by testing a sample of loans that were not in arrears for other indicators of financial distress. We also considered if any management adjustments were required to recognise impairment provisions held by the Society for impairment events that are not captured in its impairment model. We challenged the appropriateness of other assumptions used within the loan loss provision such as impairment triggers, expected future cash flows, time horizons to sale, expected costs to sell and house price indexation. Procedures performed included benchmarking to peers and performing independent recalculations. We also considered the appropriateness of the overall provision on the basis of the changing macro-economic environment, in particular in relation to the level of uncertainty surrounding Covid-19.

Key observations	We concluded that management's view with regards to the loan loss provision and in particular the PD assumptions adopted was appropriate, with the provision sitting at the conservative end of an acceptable range. We determined the impairment events used by management in its impairment model to be appropriate and consider that this appropriately identifies customers for which a specific provision may be required. Overall, we found the loan loss provision model to be working as intended and consider the loan loss provision to be recorded in line with the requirements of IAS 39.

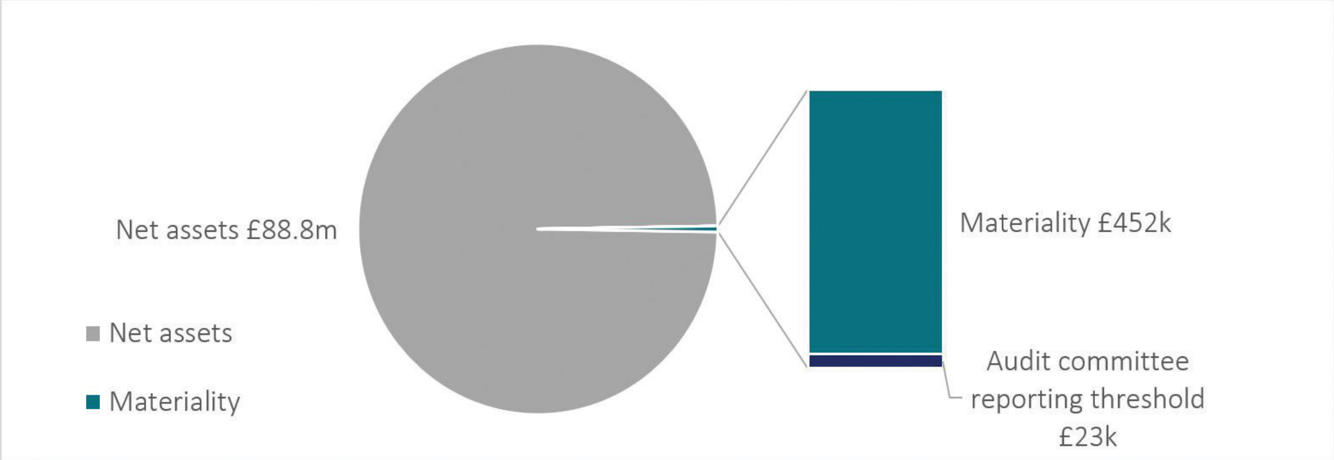
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Society financial statements
Materiality	£452,000 (FY20: £265,000)
Basis for determining materiality	0.5% of net assets (FY20: 0.325% of net assets) We have amended our materiality basis during the FY21 audit process. We have increased our basis for materiality from 0.325% to 0.5% of net assets for FY21, in order to align our basis more closely to those observed at peers.
Rationale for the benchmark applied	Net assets is a relevant benchmark to users of the financial statements and the Society's regulators and is a stable basis on which to determine materiality in the current economic climate.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2021 audit (FY20: 65%). In determining performance materiality, we considered that this continues to be appropriate in light of the level of uncorrected misstatements identified in the prior periods as well as the increased control risks inherent within the business given it is operating in a Covid-19 environment.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £23k (FY20: £13k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Our consideration of the control environment

We identified key IT systems for the Society in respect of the financial reporting system and lending and deposits system. We involved IT specialists to perform testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to adopt a controls reliance approach in relation to the lending and deposits business cycles, with relevant automated and manual controls being tested across these cycles. Based on the completion of these procedures being satisfactory, we were able to adopt a controls reliance approach across the lending and deposits cycles when performing our substantive audit procedures.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, information technology, real estate and prudential regulation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of revenue recognition and loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included legislations imposed by the Building Societies Act 1986 and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included legislations imposed by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), Anti-Money Laundering Regulations, the Consumer Credit Act 2006 and General Data Protection Regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and loan loss provisioning as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

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 requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 28 to the financial statements for the financial year ended 31 October 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by Board of Directors on 26 February 2018 to audit the financial statements for the year ending 31 October 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 October 2018 to 31 October 2021.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our 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.

Kieren Cooper FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
20 December 2021

Income Statements for the year ended 31 October 2021

	Notes	2021 £000	2020 £000
Interest receivable and similar income	2	25,165	26,682
Interest payable and similar charges	3	(7,217)	(10,284)
Net interest income		17,948	16,398
Fees and commissions receivable		132	107
Fees and commissions payable		(113)	(288)
Other operating income		30	27
Total operating income		17,997	16,244
Net gain/(loss) from derivatives	4	1,526	(160)
Total Net Income		19,523	16,084
Administrative expenses	5	(11,303)	(10,692)
Depreciation and amortisation	13/14	(1,025)	(571)
Operating profit before impairment and provisions		7,195	4,821
Impairment of loans and advances	12	440	(752)
Profit before Tax		7,635	4,069
Taxation	6	(1,635)	(842)
Profit for the Financial Year	19	6,000	3,227

Statement of Comprehensive Income

Profit for the financial year		6,000	3,227
Property revaluation	13	-	105
Total comprehensive income for the financial year		6,000	3,332

There was no tax impact of the property valuation in 2020.

No income has been reclassified to the income statement. The above results are all derived from continuing operations.

The notes on pages 47 to 76 form part of these accounts.

Statement of Financial Position at 31 October 2021

	Notes	2021 £000	2020 £000
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England		314,317	181,875
Loans and advances to credit institutions	9	5,573	17,709
		319,890	199,584
Derivative financial instruments	10	3,639	9
Loans and advances to customers			
Loans fully secured on residential property	11	1,061,610	1,005,641
Other loans	11	5,650	7,352
Fair value adjustment for hedged risk	11	(2,833)	2,986
		1,064,427	1,015,979
Tangible fixed assets	13	9,606	11,052
Intangible fixed assets	14	805	952
Other assets	15	1,833	5,265
Prepayments and accrued income		952	841
Total Assets		1,401,152	1,233,682
Liabilities			
Shares	16/24	1,118,616	1,012,447
Amounts owed to credit institutions	24	155,010	101,420
Amounts owed to other customers	24	33,062	29,610
Derivative financial instruments	10	561	4,108
Other liabilities	17	2,152	27
Tax liabilities	17	967	507
Accruals and deferred income		1,412	2,499
Deferred tax	18	596	288
Total Liabilities		1,312,376	1,150,906
Reserves			
Revaluation reserve	19	1,029	2,245
Reserves - general reserves	19	87,747	80,531
Total Reserves	19	88,776	82,776
Total Reserves and Liabilities		1,401,152	1,233,682

The notes on pages 47 to 76 form part of these accounts.

These accounts were approved by the Board of Directors on 20 December 2021 and were signed on its behalf by:
Peter Brickley - Chairman
Roland Gardner - Chief Executive
Darren Garner - Finance Director

Statement of Changes in Members' Interest for the year ended 31 October 2021

	Notes	General reserves £000	Revaluation reserve £000	Total
Balance at 1 November 2020		80,531	2,245	82,776
Profit for the financial year		6,000	-	6,000
Other comprehensive income for the year		-	-	-
Transfers	19	1,216	(1,216)	-
Total comprehensive income	19	7,216	(1,216)	6,000
Balance at 31 October 2021		87,747	1,029	88,776
Balance at 1 November 2019		77,304	2,140	79,444
Profit for the financial year		3,227	-	3,227
Other comprehensive income for the year		-	105	105
Total comprehensive income	19	3,227	105	3,332
Balance at 31 October 2020		80,531	2,245	82,776

Cash Flow Statement

	Notes	2021 £000	2020 £000
Cash flows from Operating Activities			
Profit before tax		7,635	4,069
Depreciation and amortisation	13,14	1,025	571
Gain on disposal of property plant and equipment		(81)	-
(Decrease)/Increase in impairment of loans and advances	12	(444)	752
Total		8,135	5,392
Changes in Operating Assets and Liabilities			
Increase in prepayments, accrued income and other assets		(285)	(1,444)
(Decrease)/Increase in accruals, deferred income and other liabilities		(2,640)	1,798
Increase in loans and advances to customers	11	(48,003)	(56,216)
Increase in shares		106,082	73,911
Increase/(Decrease) in amounts owed to credit institutions		53,600	(26,700)
Increase/(Decrease) in amounts owed to other customers		3,452	(7,751)
Taxation paid		(854)	(892)
Net Cash Generated by/(Used in) Operating Activities		111,352	(17,294)
Cash flows from Investing Activities			
Purchase of property, plant and equipment	13	(1,365)	(5,432)
Purchase of intangible assets	14	(32)	(297)
Proceeds from disposal of fixed assets		2,240	-
Net Cash Generated by/(Used in) Investing Activities		843	(5,729)
Net Increase/(Decrease) in Cash and Cash Equivalents		120,330	(17,631)
Cash and cash equivalents at 1 November		199,560	217,191
Cash and Cash Equivalents at 31 October	20	319,890	199,560

1. ACCOUNTING POLICIES

The principal accounting policies applied consistently in the preparation of these Annual Accounts are set out below.

1.1 Basis of Preparation

The Annual Accounts of the Society have been prepared:

- in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement; and
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments classified at fair value through the profit or loss ("FVTPL") and property which is measured using the revaluation model and carried at fair value.

The Annual Accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest thousand.

Going concern

The Society's financial position and business activities, together with the factors likely to affect its future development and performance are set out in the strategic report. The Directors have prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions for a period in excess of 12 months from the date of approval of these financial statements. A range of sensitivities has also been applied to these forecasts, including stress scenarios relating to economic uncertainty caused by the direct or indirect consequences of Covid-19, focused on the Society's capital and liquidity position and operational resilience.

The resultant forecasts and projections showed that the Society will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. For this reason the financial statements continue to be prepared on the going concern basis. See also the Directors' Report on page 34.

Changes in accounting policies relating to the interest benchmark reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of the on going interest rate benchmark reforms. The IASB has issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform

In August 2020 the ISAB issued Interest Rate Benchmark reform Phase Two. These amendments (effective for years beginning after 1 January 2021, but with early adoption permitted) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR Reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

Phase 2 reliefs

Both IAS 39 and IFRS 9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes and any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the income statement. The Society has adopted phase 2 for the year ended 31 October 2021.

The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS39, providing the amendments were made on an economic equivalent basis.

In July 2021 the Society transitioned all of its remaining LIBOR-linked interest rate swap contracts to SONIA-linked contracts on an economic equivalent basis and applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. The Assets and Liabilities Committee reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal.

At 31 October 2021 the Society has no LIBOR-linked exposures.

1.2 Interest

Interest receivable and expense are recognised in the Income Statement using the effective interest method. The effective interest method is the rate that exactly discounts estimated future cash flows to the net carrying amount on initial recognition. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the Income Statement. Effective interest rates are recalculated when the Society changes its Standard Variable Rate (SVR).

1.3 Fair value changes on derivatives

Fair value changes on derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through profit or loss, are presented in net gain/(loss) from derivatives at fair value through profit or loss in the income statement.

1.4 Fees and commissions receivable and payable

Fees and commissions that are material and that are an integral part of the effective interest rate on financial assets and financial liabilities are included in the measurement of the effective interest rate. Other fees and commissions are recognised as the related services are performed.

1.5 Financial instruments

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the Statement of Financial Position and measured in accordance with their assigned category.

Recognition

The Society initially recognises loans and advances and deposits issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

a) Financial assets
The Society allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss and loans and receivables. The Society has no assets categorised under IAS 39 as available-for-sale. Management determines the classification of its financial instruments at initial recognition. Purchases and sales of non-derivative financial assets are accounted for at settlement date.

At fair value through profit or loss
This category comprises financial assets designated by the Society at fair value through profit or loss upon initial recognition. Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. The Society uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational activities, mainly fixed rate mortgages. Recognition of any resultant gain or loss depends on the nature of the item being hedged. See 1.6 Hedge accounting.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any directly attributable transaction costs – and measured subsequently at amortised cost using the effective interest method.

Loans and receivables are reported in the Statement of Financial Position as loans and advances to credit institutions or customers. Interest on loans is included in the Income Statement and is reported as interest receivable and similar income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the Income Statement as impairment losses on loans and advances.

b) Financial liabilities
The Society classifies all its financial liabilities, other than derivatives, as measured at amortised cost.

Measurement

a) Amortised cost measurement
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

b) Fair value measurement
Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted, between knowledgeable, willing parties in an arm's length transaction.

The Society determines fair values by the three-tier valuation hierarchy as defined within IAS 39 and FRS102.34:

- 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 objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Derivatives fall within level 2.

Impairment of financial assets not measured at fair value

Impairment of mortgage loans and advances
The Society assesses at each year end date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Society first assesses whether objective evidence of impairment exists for financial assets using the following criteria:

- Deterioration in payment status;
- Forbearance being applied; and
- Expected future increase in arrears due to change in loan status and any other information suggesting that a loss is likely in the short to medium term.

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate. This calculation takes into account the Society's and the industry's experience of default rates, loss emergence periods, the effect of regional movements in house prices based upon a recognised index and adjustments to allow for ultimate forced sales values and realisation costs. The amount of the loss is recognised in the Income Statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

If the Society determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

A collective provision is made against a group of loans and advances where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

Forbearance
The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The Society has various forbearance options to support customers who may find themselves in financial difficulty, During the financial periods ended 31 October 2020 and 2021 these options included the provision of support to borrowing members impacted by Covid-19, in accordance with FCA guidance. Details on the options offered by the Society can be found in Note 23 to the Accounts.

Consideration of the continued impact of Covid-19 has also been factored into the assessment of impairment as at 31 October 2021 and forms a key area of judgement for the year ended 31 October 2021. See 1.13 below.

Derecognition of financial assets and liabilities

The Society derecognises financial assets when the contractual right to the cash flows from the financial asset expires or when it transfers the asset to another party, provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Society derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

1.6 Hedge accounting

The Society documents, at the inception of any hedging transaction, the relationship between the hedging instrument and the hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. The Society also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items. This is done by measuring the correlation co- efficient between the hedged items and the derivatives. These must be within parameters to be deemed highly effective, which the Society's hedges are.

i) Fair value hedges – Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item.

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

1.7 Intangible assets

Computer software
Purchased software which is not an integral part of the related hardware is recorded as an intangible asset and stated at cost. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Society, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

Amortisation
Intangible assets are held at amortised cost, with amortisation charged to the Income Statement on a straight-line basis over the estimated useful life of between 3-5 years. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. Intangible assets are subject to regular impairment reviews in accordance with section 27 of FRS102.

1.8 Property, plant and equipment

Property, plant and equipment are initially stated at cost. All property is revalued to fair value, determined by market based evidence, at the date of the valuation less any subsequent accumulated depreciation and impairment losses. Full valuations are carried out every five years. The last valuation was on 15 March 2019. The Directors review the valuations to confirm that the valuations remain appropriate in the intervening years.

Gains on revaluation are recognised in the statement of other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit or loss.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in profit or loss.

Depreciation
Depreciation commences when the assets first become available for operational use and are depreciated using the straight line method (unless otherwise stated) to allocate their cost less their residual values over their estimated useful lives, as follows:

Building	50 years
Short leasehold properties	Straight line over the period of the lease or over 50 years, whichever is shorter
Equipment, fixtures and fittings and motor vehicles	Straight line 3 to 8 years
Office equipment	Straight line 3 to 8 years
Computer equipment	Straight line 3 to 8 years
Motor vehicles	Straight line 3 to 8 years
Building and mechanical equipment	Straight line 15 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The planned disposal of an asset before the previously expected date is an indicator of potential impairment.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds from sale with the carrying amount and included in the Income Statement.

1.9 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with maturities of 90 days or less. There are no cash and cash equivalent balances held by the Society that are not available for use by the Society.

1.10 Taxation

Tax on the profit for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income within the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable expense for the year, using the tax rate which applies to the accounting period ending at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years. Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is stated without discounting and determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.11 Provisions and contingent liabilities

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events, not wholly within the control of the Society is a contingent liability. A contingent liability is disclosed but not recognised in the Statement of Financial Position.

1.12 Employee benefits

The Society operates a defined contribution pension plan funded by contributions from the Society and employees. Society contributions are recognised as an employee benefit expense in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.13 Critical Accounting Estimates and Judgements

In applying the Society's accounting policies, the Society makes estimates and applies judgements that can have a material effect on the reported amounts of assets and liabilities. These estimates and judgements 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. Although the Society has internal controls in place to ensure reliable measurement actual results may differ from the estimates. There are no critical accounting judgements. The most significant use of accounting estimates relate to the matters described below.

Impairment Provision on Loans and Advances

The Society reviews its loans on a monthly basis to assess impairment. This requires the exercise of a significant degree of judgement. Provisions require judgement to be exercised in predicting future economic conditions such as house price movements and the length of time before impairments are identified (i.e. emergence period). Accounting estimates relate to default rates. The accuracy of the provision is dependent on the assumptions regarding probability of default.

A 10% variation in the assumptions regarding probability of default would increase the impairment provision on loans and advances by £151k (2020: £138k). A 10% variation is considered appropriate as this may reflect the impact of an economic downturn and is consistent with the Society's stress testing. An increase in the forced sale discount of 5% would result in an additional provision requirement of £974k (2020: £1,179k). A 5% increase is considered a material movement since it is additional to the discount already applied to house prices when calculating the provision and results in a price reduction greater than the last significant fall in 2009 when the house price index reduced by 14%.

The Society has also considered the additional risk associated with new lending at higher loan to income (LTI) multiples and applied a higher probability of default assumption to loans completed within the two most recent financial periods. This resulted in an increase in impairment provisions of £151k.

The Society also considered the additional risk associated with lending on buildings of over four storeys or more in height. The impairment assessment already makes an assumption for the combined forced sale discount and disposal costs however, to reflect the risk that a sale in the near term may require heavier discounting, an additional 25% forced sale discount was applied to these properties as a management judgement. A higher probability of default was also applied as a management judgement to reflect a greater risk of default arising from these borrowers potentially having to meet higher property servicing costs. This resulted in an increase in impairment provisions of £226k.

Covid-19

The Covid-19 situation was a key factor in the determination of impairment losses at 31 October 2020, requiring consideration of the consequential economic risks that could materialise. In line with FCA guidance the Society put in place a series of forbearance measures to support any of its borrowing members impacted by Covid-19 and applied these forbearance measures throughout the financial years ended 31 October 2020 and 2021.

The assessment of impairment in each of these financial years considered the ongoing impact of Covid-19 and resulted in a management overlay of £415k being made in the year ended 31 October 2020, with an increase in the probability of default in remaining Covid-19 forbearance cases being the key determinant of the management overlay impairment charge. As at 31 October 2021 there were 34 cases subject to the Society's forbearance measures (2020: 114 cases) with no cases considered to relate to Covid-19 (2020: 71). Accordingly no overlay impairment charge has been made. Further information on forbearance can be found in Note 23.

Further consideration of the ongoing risks and uncertainties associated with Covid-19 is provided in the Strategic Report on page 21 and the Risk Management Report on page 31.

Effective Interest Rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for using the EIR method. The calculation of an effective interest rate requires judgements regarding the expected (behavioural) life of the underlying mortgage asset and affects the carrying value of loans and receivables. The Society assesses which mortgage products have similar characteristics to then be grouped to calculate their respective average behavioural lives. Average lives are then estimated based on behavioural repayment data. In determining the expected lives of mortgage assets the Society uses both historical and forecast redemption data as well as management judgement. These assumptions are regularly reviewed and reassessed for reasonableness and against actual performance.

Average lives can increase or decrease depending on economic and interest rate conditions. If the average lives of the mortgages were to increase by one month, the carrying value of mortgages would change by £724k (2020: £631k) with a corresponding change to income. Average lives are recalculated routinely and usually vary between 0-2 months. Based on the level of market uncertainty being higher than normal the Society acknowledges that there is an increased risk of expected future cash flows being materially higher or lower than forecasted.

	2021 £000	2020 £000
2. Interest Receivable and Similar Income		
On loans fully secured on residential property	26,786	27,016
On other loans	144	199
On other liquid assets and debt securities	236	822
Net expense on financial instruments	(2,001)	(1,355)
	25,165	26,682
3. Interest Payable and Similar Charges		
On shares held by individuals	6,875	9,472
On other shares	31	43
On amounts owed to other customers and credit institutions	311	769
	7,217	10,284
4. Net Gain/(Loss) from Derivatives		
Derivatives in designated fair value hedge relationships	6,744	(2,114)
Adjustments to hedged items in fair value hedge accounting relationships	(5,820)	1,820
Gain on derivatives not in designated fair value hedge accounting relationships	602	134
	1,526	(160)

The net gain from derivative financial instruments of £1,526k (2020: net loss of £160k) represents the net fair value movement on derivative instruments that are matching risk exposures 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.

	2021 £000	2020 £000
5. Administrative Expenses		
Employee costs		
• Wages and salaries	5,332	5,337
• Social security costs	568	548
• Other pension costs	785	737
	6,685	6,622
(Gain)/Loss on disposal of fixed assets	(81)	3
Other administrative expenses	4,699	4,067
	11,303	10,692
• Remuneration of auditor and its associates (excluding VAT)		
- audit of annual accounts	132	127
- non audit services	9	-
• Operating lease costs	153	144

6. Taxation

The taxation charge for the year comprises:	2021 £000	2020 £000
UK corporation tax on profits in the year	1,341	654
Adjustment in respect of previous year	(14)	-
Total current tax	1,327	654
Deferred taxation:		
Origination and reversal of timing differences	151	176
Ajustment in respect of previous year	14	-
Effect of change of tax rate	143	12
Total deferred tax	308	188
Tax on profit on ordinary activities	1,635	842
Factors affecting the tax charge for the year are:		
Profit on ordinary activities before tax	7,635	4,069
Profit on ordinary activities multiplied by 19% (2020: 19%)	1,451	773
Effects of:		
Difference between opening and closing tax rates	143	12
Depreciation on non-qualifying assets	(37)	6
Disallowable expenses	78	51
Total tax	1,635	842

Current tax has been provided at the rate of 19%. For the year ended 31 October 2021 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date.

7. Employees

The average number of people employed during the year (including executive directors) was as follows:	Full time 2021	Part time 2021	Full time 2020	Part time 2020
Head Office	73	22	77	21
Branches	45	26	49	22
	118	48	126	43

8. Directors' Remuneration and Transactions

The emoluments for both Executive and Non-Executive Directors totalled £1,051,000 for the year (2020: £1,089,000).

Executive Directors' Emoluments

2021	Salary £000	Performance Related Pay £000	Taxable Benefits £000	Pension Contribution [1] £000	TOTAL £000
Roland Gardner	243	21	5	-	269
Lee Bambridge[2]	148	12	5	-	165
Phillippa Cardno	151	17	4	32	204
Darren Garner	146	15	1	31	193
TOTAL	688	65	15	63	831
2020					
Roland Gardner	241	26	6	-	273
Lee Bambridge	147	16	6	-	169
Kieron Blackburn (resigned 28/01/20)	179	-	-	7	186
Phillippa Cardno	139	19	5	29	192
Darren Garner (appointed 03/08/20)	36	5	-	7	48
TOTAL	742	66	17	43	868

Notes

1 The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year Phillippa Cardno and Darren Garner took advantage of this option. Roland Gardner and Lee Bambridge, with agreement from the Society, took their pension contributions as salary.

2 Lee Bambridge also received £18,300 (2020: £18,000) from Sovereign Housing Association for his services as a Non-Executive Director.

Further details on the components of Directors' emoluments can be found in the Directors' Remuneration Report on pages 32 and 33.

Non-Executive Directors' Emoluments (comprising fees only)

	2021 £000	2020 £000
Peter Brickley (Chairman)	45	45
Chris Brown	28	28
Sarah Hordern (resigned 31/10/21)	31	30
William Roberts	31	30
Zoe Shaw (resigned 5/10/21)	26	28
Ron Simms (retired 24/02/2020)	-	11
Alistair Welham (appointed 24/02/20)	28	19
Piers Williamson	31	30
TOTAL	220	221

Loans to Directors and connected persons:

The aggregate outstanding balance at the end of the financial year in respect of loans from the Society to Directors and connected persons was £nil (2020: £511,511) representing loans to none (2020: one) person. The terms and conditions are in line with standard mortgage lending and the loan is secured on residential property with the nature of any final settlement being on a cash basis. There are no guarantees given or received. A register of loans to and transactions with Directors and connected persons is maintained. It is available for inspection by members at the Society's Head Office for the period of fifteen days prior to the Annual General Meeting and at the Annual General Meeting, subject to prior arrangement to ensure the request can be accommodated in a covid-safe manner.

9. Loans and Advances to Credit Institutions

	2021 £000	2020 £000
Accrued interest	-	24
Repayable on demand	5,573	7,185
Other loans and advances by residual maturity repayable:		
In no more than three months	-	10,500
	5,573	17,709

10. Derivative Financial Instruments

	Contract/notional amount £000	Fair values Assets £000	Fair values Liabilities £000
At 31 October 2021			
a) Unmatched derivatives - Interest rate swaps	33,929	544	(24)
b) Derivatives designated as fair value hedges - Interest rate swaps	305,595	3,095	(537)
Total recognised derivative assets/(liabilities)	339,524	3,639	(561)
At 31 October 2020			
a) Unmatched derivatives - Interest rate swaps	40,213	6	(99)
b) Derivatives designated as fair value hedges - Interest rate swaps	307,132	3	(4,009)
Total recognised derivative assets/(liabilities)	347,345	9	(4,108)

The Society determines fair values by the three tier valuation hierarchy as set out in the accounting policies (note 1). All of the Society's derivative financial instruments are valued using level 2 methodology.

11. Loans and Advances to Customers

	2021 £000	2020 £000
Loans fully secured on residential property before adjustments	1,062,157	1,006,020
Other loans: fully secured on land before adjustments	5,650	7,352
Total loans before adjustments	1,067,807	1,013,372
Effective interest rate adjustment	986	1,598
Provision for impairment losses on loans and advances	(1,533)	(1,977)
Per note 23	1,067,260	1,012,993
Fair value adjustment for hedged risk	(2,833)	2,986
	1,064,427	1,015,979

The remaining maturity of loans and advances to customers from the reporting date is as follows:

Repayable:		
In not more than three months	2,875	2,252
In more than three months but not more than one year	4,643	10,287
In more than one year but not more than five years	75,704	74,260
In more than five years	982,738	931,157
	1,065,950	1,017,956
Less allowance for impairment (refer to note 12)	(1,533)	(1,977)
	1,064,427	1,015,979

The maturity analysis above is based on contractual maturity; not behavioural or expected maturity.

At 31 October 2021 the Society had pledged £274.4m of mortgage assets to the Bank of England (2020: £122.3m).

12. Allowances for losses on loans and advances

	Loans fully secured on residential property		
	Collective £000	Individual £000	Total £000
At 1 November 2020	1,540	437	1,977
Credit for the year	(41)	(399)	(440)
Utilised in the year	-	(4)	(4)
At 31 October 2021	1,499	34	1,533

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13. Tangible Fixed Assets

	Land and Buildings £000	Equipment, fixtures, fittings & vehicles £000	Total £000
Cost / valuation (1)			
At 1 November 2020	8,726	4,274	13,000
Additions	27	1,462	1,489
Disposals (2)	(2,118)	(974)	(3,092)
At 31 October 2021	6,635	4,762	11,397
Depreciation			
At 1 November 2020	142	1,806	1,948
Charge for the year	67	403	470
Impairment (3)	306	-	306
Elimination in respect of Disposal	-	(933)	(933)
At 31 October 2021	515	1,276	1,791
Net book value			
At 31 October 2020	8,584	2,468	11,052
At 31 October 2021	6,120	3,486	9,606

Notes

1. Land and buildings consist of £6.6m of freehold property, £2.9m non-depreciable land and £0.3m of leasehold property. The net book value occupied for own activities at 31 October was £5.1m (2020: £8.1m). If the freehold properties had been held under the historical cost basis their net book value as at 31 October 2021 would have been £4.1m (2020: £2.9m). The Society's freehold properties were last revalued on 15 March 2019 on a market value and vacant possession basis by Quintons, Chartered Surveyors, who are considered to be independent of the Society. Other tangible fixed assets are included at cost.
2. Disposals comprise almost entirely of the disposal of the Society's former Head Office premises in Newbury and the freehold branch premises in Abingdon.
3. Impairment charge made in respect of an unoccupied portion of the Society's head office which is available for commercial rental, and one of the Society's freehold branch premises.

14. Intangible Assets

	Software £000
Cost / valuation	
At 1 November 2020	3,070
Additions	103
Disposal	(1,298)
At 31 October 2021	1,875
Depreciation	
At 1 November 2020	2,118
Charge for the year	250
Disposal	(1,298)
At 31 October 2021	1,070
Net book value	
At 31 October 2020	952
At 31 October 2021	805

15. Other Assets

	2021 £000	2020 £000
Cash collateral pledged against hedging contracts	-	3,970
Bank of England cash ratio deposit	1,833	1,295
	1,833	5,265

Bank of England cash ratio deposit has been recognised within other assets due to having a maturity which exceeds 90 days.

16. Shares

	2021 £000	2020 £000
Held by individuals	1,118,432	1,012,176
Other shares	184	271
	1,118,616	1,012,447

17. Other Liabilities

	2021 £000	2020 £000
Amounts falling due within one year:		
Corporation tax	794	322
Social security	173	185
Cash collateral received against hedging contracts	2,100	-
Other creditors	52	27
	3,119	534

18. Deferred Tax

	2021 £000	2020 £000
At 1 November	288	100
Deferred tax charge (see note 6)	308	188
At 31 October	596	288
Comprising:		
Accelerated capital allowances	498	183
FRS102 transition adjustment	123	118
Head office project costs	(4)	(3)
Branch refurb provisions	(21)	(10)
At 31 October	596	288

All deferred tax balances have been recognised at 25% being the rate enacted at the balance sheet date at which the balances are materially expected to reverse.

19. Reserves

	£000
General Reserves	
At 1 November 2020	80,531
Profit for the financial year	6,000
Transfer from revaluation reserve	1,216
At 31 October 2021	87,747
Revaluation Reserve	
As at 1 November 2020	2,245
Transfer to general reserve	(1,216)
As at 31 October 2021	1,029

Transfer from revaluation reserve relates to gains realised during the year following disposal of the Society's former Head Office site and the freehold branch site in Abingdon, Oxfordshire.

20. Cash and Cash Equivalents

	2021 £000	2020 £000
Cash in hand and balances with the Bank of England repayable on demand	314,317	181,875
Loans and advances to credit institutions	5,573	17,685
As at 31 October	319,890	199,560

Loans and advances to credit institutions excludes accrued interest and amounts repayable in more than three months.

21. Capital and Other Financial Commitments

	2021 £000	2020 £000
a. Capital commitments		
Capital expenditure contracted but not yet provided for in the accounts	58	1,395
b. Leasing commitments		
Total rental commitments on leases with a remaining term of	163	148
• Not later than one year	-	-
• Later than one year but not later than five years	122	48
• Later than five years	41	100

All above capital commitments relate to tangible fixed assets.

Financial Statements

22. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. Newbury Building Society sells financial instruments, namely mortgages and savings products. The Society uses derivative instruments in the form of interest rate swaps to manage the risk arising from its exposure to financial instruments. These are used to protect the Society from exposures arising principally from fixed rate mortgage lending. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swaps is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities. The objective of the Society in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The following table sets out the activities that cause interest rate risk and how they are managed:

Activity	Risk	Managed by
Fixed rate mortgage lending and other assets	Sensitivity to rises in interest rates	Pay fixed rate interest rate swaps to match against fixed rate receipts
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Matching longer terms products against fixed rate mortgages

The Society has a formal governance structure for managing financial and other risks, including an established risk appetite, risk limits, reporting lines, mandates and other control procedures. The Assets and Liabilities Committee monitors the financial risks (including the use of derivative financial instruments), funding and liquidity in line with the Society's policy statements and reports any significant matters at each Board meeting.

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost as shown in the following table.

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	Fixed or SONIA linked interest rates Fixed term Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term typically of 25 years Fixed or variable rate interest	Loans and receivables at amortised cost Accounted for from the date of advance
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for from the date of deposit
Amounts owed to credit institutions	Fixed or SONIA linked interest rates Fixed term Short to medium term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or SONIA linked 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 the derivative	Fair value through profit and loss Accounted for at trade date

The Society's accounting policies set out in note 1 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's financial assets and liabilities by financial classification:

Carrying values by category 31 October 2021	Held at amortised cost		Held at fair value		
	Loans and receivables £000	Financial assets and liabilities £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets					
Cash in hand and balances with the Bank of England	314,317	-	-	-	314,317
Loans and advances to credit institutions	5,573	-	-	-	5,573
Derivative financial instruments	-	-	544	3,095	3,639
Loans and advances to customers	1,064,427	-	-	-	1,064,427
Total assets	1,384,317	-	544	3,095	1,387,956
Financial liabilities					
Shares	-	1,118,616	-	-	1,118,616
Amounts owed to credit institutions	-	155,010	-	-	155,010
Amounts owed to other customers	-	33,062	-	-	33,062
Derivative financial instruments	-	-	537	24	561
Total liabilities	-	1,306,688	537	24	1,307,249

The amounts owed to credit institutions comprise borrowings from the Bank of England under the Term Funding Scheme with additional incentives for SMEs.

Carrying values by category 31 October 2020

	Held at amortised cost		Held at fair value		
	Loans and receivables £000	Financial assets and liabilities £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	Total £000
Financial assets					
Cash in hand and balances with the Bank of England	181,875	-	-	-	181,875
Loans and advances to credit institutions	17,709	-	-	-	17,709
Derivative financial instruments	-	-	3	6	9
Loans and advances to customers	1,015,979	-	-	-	1,015,979
Total assets	1,215,563	-	3	6	1,215,572
Financial liabilities					
Shares	-	1,012,447	-	-	1,012,447
Amounts owed to credit institutions	-	101,420	-	-	101,420
Amounts owed to other customers	-	29,610	-	-	29,610
Derivative financial instruments	-	-	4,009	99	4,108
Total liabilities	-	1,143,477	4,009	99	1,147,585

There have been no reclassifications during either year.

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into levels 1 to 3 of the fair value hierarchy as defined within IAS 39 and FRS102.34:

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value.

Level 1 – The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society has no assets or liabilities that qualify as Level 1.

Level 2 – These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists, and quoted prices are available for similar instruments in active markets. The Society's Level 2 assets comprise entirely of the Society's portfolio of derivative financial instruments held for risk management purposes the fair value for which has been determined using generally observable SONIA yield curves derived from quoted interest rates which match the timings of the cash flows and maturities of the instruments.

Level 3 – These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society has no assets or liabilities that qualify as Level 3.

23. Credit Risk

Credit risk is the risk that the Society incurs a financial loss arising from the failure of a customer or counterparty to meet their contractual obligations. The Society controls the level of credit risk it undertakes by maintaining a credit 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 Society's maximum credit risk exposure is detailed in the table below:

	2021 £000	2020 £000
Credit risk exposure		
Cash in hand and balances with the Bank of England	314,317	181,875
Loans and advances to credit institutions	5,573	17,709
Derivative financial instruments	3,639	9
Loans and advances to customers	1,067,260	1,012,993
Total statement of financial position exposure	1,390,789	1,212,586
Off balance sheet exposure - mortgage offers and retentions	42,032	59,654
Total	1,432,821	1,272,240

Loans and advances to customers are shown as gross of effective interest rate adjustment and net of provisions (see note 11).

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property £1,062.1m (2020: £1,006.0m), split between residential, buy-to-let and commercial owner occupier loans, and £5.7m (2020: £7.4m) being secured on commercial property.

The Society operates throughout England and Wales with the portfolio mainly concentrated in the South East and South West.

Residential Assets

Loans fully secured on residential property are split between residential, buy to let and commercial owner occupied.

	2021 £000	2020 £000
Concentration by loan type		
Prime owner occupied	913,791	866,348
Buy to let and commercial owner occupied	148,366	139,672
Gross balance	1,062,157	1,006,020
Impairment provisions	(1,533)	(1,977)
Fair value adjustments	(2,833)	2,986
	1,057,791	1,007,029

Geographical analysis	2021 £m	2021 %	2020 £m	2020 %
East Anglia	25.1	2.4	21.8	2.2
East Midlands	21.3	2.0	18.6	1.8
Greater London	150.5	14.2	136.1	13.5
North	3.9	0.4	3.7	0.4
North West	20.6	1.9	16.0	1.6
South East	627.4	59.1	613.7	61.0
South West	163.1	15.3	158.3	15.7
Wales	9.8	0.9	7.7	0.8
West Midlands	27.2	2.6	21.9	2.2
Yorkshire & Humberside	13.2	1.2	8.2	0.8
Total	1,062.1	100	1,006.0	100

The following table analyses the loan to value (LTV) of the residential portfolio:

LTV analysis	2021 £m	2021 %	2020 £m	2020 %
0% - 50%	778.0	73.3	686.2	68.3
50.01% - 75%	264.7	24.9	289.2	28.7
75.01% - 80%	9.5	0.9	9.1	0.9
80.01% - 85%	6.9	0.6	11.5	1.1
85.01% - 90%	2.8	0.3	7.7	0.8
90.01% - 95%	0.2	0.0	2.3	0.2
95.01% - 100%	-	-	-	-
	1,062.1	100	1,006.0	100
Average loan to value of residential mortgage loans		29.8		32.1

The average LTV of 29.8% (2020: 32.1%) is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held adjusted by an average of the quarterly movements in the Nationwide and HM Land Registry price indices.

The quality of the Society's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.42% (2020: 0.53%) of loans are three months or more in arrears and by value it is 0.29% (2020: 0.42%).

The main factor for loans moving into arrears is due to a change in the borrower's circumstances e.g. unemployment, illness, relationship breakdown.

The table below provides information on residential loans by payment due status:

Arrears analysis	2021 £m	2021 %	2020 £m	2020 %
Not impaired:				
Neither past due or impaired	1,052.6	99.1	987.8	98.2
Past due under 3 months but not impaired	6.2	0.6	7.7	0.3
Past due 3 months and over but not impaired	3.0	0.3	3.1	0.8
Possessions	-	-	0.1	-
Impaired:				
Not past due	0.1	-	4.0	0.4
Past due under 3 months	0.1	-	2.3	0.3
Past due 3 to 5 months	0.1	-	0.9	-
Past due 6 to 12 months	-	-	-	-
Possessions	-	-	0.1	-
Total	1,062.1	100	1,006.0	100

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 Society has taken ownership of the underlying security pending its sale. The Society has various forbearance options to support customers who may find themselves in financial difficulty. These include temporary interest only concessions, payment plans, and reduced payment concessions. Possession is a last resort.

The following table sets out the value of collateral on an indexed and unindexed basis for the residential portfolio.

	Indexed 2021 £m	Unindexed 2021 £m	Indexed 2020 £m	Unindexed 2020 £m
Value of collateral held:				
Neither past due or impaired	3,528.3	2,893.5	3,090.2	2,683.5
Past due but not impaired	33.4	24.0	34.4	27.5
Impaired	0.5	0.5	10.5	10.1
Total	3,562.2	2,918.0	3,135.1	2,721.1

The collateral consists of residential property. Collateral values are adjusted by an average of the Nationwide and HM Land Registry price indices on a quarterly basis.

The value of collateral held against loans 'Past due but not impaired' at 31 October 2021 is £33.4m (2020: £34.4m) against outstanding debt of £9.2m (2020: £10.9m). In addition, the value of collateral held against 'Impaired' assets at 31 October 2021 is £0.5m (2020: £10.5m) against outstanding debt of £0.4m (2020: £7.3m).

Mortgage indemnity insurance acts as additional security. It is taken out for residential loans where the borrowing exceeds 75% LTV at inception.

Commercial Assets

	2021 £m	2020 £m
Concentration by loan type		
Loans secured on commercial property	5.7	7.4
	5.7	7.4

The analysis of loans secured on commercial property by industry type is as follows:

	2021 £m	2021 %	2020 £m	2020 %
Club/social	0.1	2.3	0.1	1.9
Education	0.2	2.7	0.1	2.0
Industrial unit	1.1	20.1	1.2	15.9
Office	1.3	23.1	1.2	15.8
Shops	2.9	50.2	2.9	39.2
Other	0.1	1.6	1.9	25.2
	5.7	100	7.4	100

There are no impairments or fair value adjustments on the commercial assets above.

	2021 £m	2021 %	2020 £m	2020 %
Geographical analysis				
South East	5.6	98.2	5.8	78.1
South West	0.1	1.8	0.1	1.5
West Midlands	-	-	1.5	20.4
Total	5.7	100	7.4	100

The following table analyses the loan to value (LTV) of the commercial portfolio using the valuation of the property carried out at inception of the mortgage:

	2021 £m	2021 %	2020 £m	2020 %
LTV analysis				
0% - 50%	2.6	46.5	5.6	75.1
50.01% - 75%	2.3	39.9	1.8	24.9
75.01% - 80%	0.8	13.6	-	-
	5.7	100	7.4	100
Average loan to value of commercial mortgage loans		32.2		34.5

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The quality of the Society's commercial mortgage book is reflected in the number and value of accounts in arrears. By volume 0% (2020: 0%) of loans are three months or more in arrears and by value it is 0% (2020: 0%).

The main factor for loans moving into arrears is the condition of the general economic environment and its impact on business performance or commercial rents.

The table below provides information on retail loans by payment due status:

Arrears analysis	**2021 £m**	**2021 %**	**2020 £m**	**2020 %**
Not impaired:				
Neither past due or impaired	5.2	91.2	5.7	76.8
Past due up to 3 months but not impaired	0.5	8.8	1.5	20.4
Past due over 3 months but not impaired	-	-	-	-
Possessions	-	-	-	-
Impaired:				
Not past due	-	-	0.2	2.8
Past due up to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	-	-
Past due over 12 months	-	-	-	-
Possessions	-	-	-	-
	5.7	100.0	7.4	100

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.

The following table sets out the value of unindexed collateral for the commercial portfolio.

	Unindexed 2021 £m	**Unindexed 2020 £m**
Value of collateral held:		
Neither past due or impaired	16.6	17.8
Past due but not impaired	1.0	3.2
Impaired	-	0.3
Total	17.6	21.3

The collateral consists of commercial property.

The value of collateral held against loans 'Past due but not impaired' at 31 October is £1.0m (2020: £3.2m) against outstanding debt of £0.5m (2020: £1.5m). In addition, the value of collateral held against loans 'impaired' at 31 October 2021 is £nil (2020: £0.3m) against outstanding debt of £nil (2020: £0.2m).

Forbearance

The Society has various forbearance options to support customers who may find themselves in financial difficulty:

- Temporary conversion from capital and interest to interest only repayment (interest only concessions)
- Temporary extension of mortgage term to reduce monthly repayments (term extensions)
- Reduced payment concessions, where the customer makes an agreed underpayment for a period
- Arrangements to make part payments to repay arrears over an agreed period (payment plans)
- Payment holidays where previous overpayments have accrued
- Change of repayment date to better suit customer's income and expenditure profile
- Change of method by which payments are made
- Capitalisation of arrears where borrower has maintained repayments for an agreed period
- Freezing of interest on arrears where borrower has been granted breathing space under the Goverment Debt Respite Scheme

In March 2020, the Government announced a number of measures to help people affected by Covid-19. This included a full or partial mortgage payment deferral (holiday) for up to 3 months, followed by a second deferral for up to another 3 months (a maximum of 6 months). The "deferral" meant borrowers were not required to make any mortgage payments during the period, although they were encouraged to do so where possible. The Society has supported the Government scheme during the reporting period, in addition to offering the range of forbearance options above. Application to enter the scheme ended on 31 March 2021 and all payment deferrals ended by 31 July 2021.

In some cases, more than one forbearance solution is offered, for example where a customer can afford to pay more than just interest only and combines with a part repayment. Capitalisation is usually an exception and is approved by Credit Committee. Almost all of the Society's borrowers requiring a payment deferral due to Covid-19 chose to capitalise their deferred payments at the end of the deferral period.

With the exception of Covid-19 related 'self-certified' payment deferrals all forbearance arrangements are formally discussed with the customer and agreed by an authorised member of the arrears management team. 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 level of forbearance activity is reported to Credit Committee on a quarterly basis. In addition all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing suitability for the customer and potential risk to the Society.

In addition to loans in forbearance, the Society also monitors loans that, by way of a specific event or conversation with the customer, may likely be subject to future forbearance. These 'potential forbearance indicators' include:

- Appointment of an Attorney or Officer of the Court of Protection
- Declined further advance applications for debt consolidation
- Receipt of application for mortgage interest relief from the Department of Work and Pensions
- Receipt of repayment plan from a debt management company
- Admission into residential care/nursing home
- Registration of a second charge where total indebtedness appears unsustainable
- Notification from customer or guarantor that future income is likely to reduce
- Lapsed or surrendered endowment policies
- Notification of money judgement through the Court
- Request for payment holiday or other forbearance method when not in arrears

The table below details the number of forbearance cases within the 'not impaired' category:

Type of forbearance	**2021 Number**	**2020 Number**
Interest only concessions	20	47
Payment plans	10	7
Term extensions	2	2
Reduced payment concessions	2	-
Covid-19 Payment deferrals	-	62
Cases with more than one form of forbearance	-	(4)
Total	34	114

In total £2.0m (2020: £3.1m) of loans that are past due are subject to forbearance. Balance not past due subject to forbearance £2.9m (2020: £14.7m). An additional £3.7m (2020: £3.3m) of loans that are past due are considered likely subject to future forbearance. Balance not past due £40.8m (2020: £27.0m), of which £37.5m (£23.6m: 2020) are borrowers who took a second Covid-19 payment deferral.

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24. 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. It is the Society's policy 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 to the Assets and Liabilities Committee (ALCO).

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 Internal Liquidity Adequacy Assessment Process (ILAAP). They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed quarterly and reported to ALCO to confirm that liquidity levels remain appropriate. The Society maintains a liquidity funding plan to ensure that it has so far as possible, sufficient liquid financial resources are available to meet liabilities as they fall due under each of the scenarios.

The Society's liquid resources comprise high quality liquid assets, including deposits in a Bank of England reserve account and time deposits. At 31 October 2021 the ratio of liquid assets to shares and deposits was 24.5% compared to 17.5% at 31 October 2020.

The Society remains an active participant in the Bank of England's Sterling Monetary Framework. Included in Amounts owed to credit institutions is £155m borrowed under the Term Funding Scheme with additional incentives for SMEs (2020: £96m Term Funding Scheme).

The table below analyses the Society's assets and liabilities into relevant 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. The actual repayment profile is likely to be significantly different from that shown in the analysis as while most mortgages have a contractual maturity of around 25 years they are generally repaid much sooner. Conversely, retail deposits repayable on demand or with notice periods generally remain on balance sheet much longer.

Residual maturity as at 31 October 2021	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with the Bank of England	314,317	-	-	-	-	-	314,317
Loans and advances to credit institutions	5,573	-	-	-	-	-	5,573
Total liquid assets	319,890	-	-	-	-	-	319,890
Derivative financial instruments	-	-	77	3,550	12	-	3,639
Loans and advances to customers	-	2,875	4,643	75,704	982,738	(1,533)	1,064,427
Other assets	-	-	-	-	-	13,196	13,196
	319,890	2,875	4,720	79,254	982,750	11,663	1,401,152
Financial liabilities and reserves							
Shares	1,000,218	95,080	17,028	6,086	-	204	1,118,616
Amounts owed to credit institutions	-	-	-	155,000	-	10	155,010
Amounts owed to other customers	15,565	17,497	-	-	-	-	33,062
Derivative financial instruments	-	83	157	320	1	-	561
Other liabilities	-	-	-	-	-	5,127	5,127
Reserves	-	-	-	-	-	88,776	88,776
	1,015,783	112,660	17,185	161,406	1	94,117	1,401,152
Net Liquidity gap	(695,893)	(109,785)	(12,465)	(82,152)	982,749	(82,454)	-

All Society liquid assets are unencumbered as at the balance sheet date.

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Residual maturity as at 31 October 2020	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity £000	Total £000
Financial assets							
Liquid assets							
Cash in hand and balances with the Bank of England	181,875	-	-	-	-	-	181,875
Loans and advances to credit institutions	7,185	10,500	-	-	-	24	17,709
Total liquid assets	189,060	10,500	-	-	-	24	199,584
Derivative financial instruments	-	-	-	9	-	-	9
Loans and advances to customers	-	2,252	10,287	74,260	931,157	(1,977)	1,015,979
Other assets	-	-	-	-	-	18,110	18,110
	189,060	12,752	10,287	74,269	931,157	16,157	1,233,682
Financial liabilities and reserves							
Shares	894,585	93,137	18,425	6,183	-	117	1,012,447
Amounts owed to credit institutions	-	1,000	33,500	66,900	-	20	101,420
Amounts owed to other customers	13,052	16,558	-	-	-	-	29,610
Derivative financial instruments	-	85	437	3,586	-	-	4,108
Other liabilities	-	-	-	-	-	3,321	3,321
Reserves	-	-	-	-	-	82,776	82,776
	907,637	110,780	52,362	76,669	-	86,234	1,233,682
Net Liquidity gap	(718,577)	(98,028)	(42,075)	(2,400)	931,157	(70,077)	-

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

	Repayable on demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
31 October 2021						
Shares	1,000,218	95,249	17,101	6,294	-	1,118,862
Amounts owed to credit institutions	-	-	-	160,901	-	160,901
Amounts owed to other customers	15,565	17,499	-	-	-	33,064
Derivative financial instruments	-	182	158	(40)	-	300
Total liabilities	1,015,783	112,930	17,259	167,155	-	1,313,127
31 October 2020						
Shares	894,585	93,398	18,518	6,438	-	1,012,939
Amounts owed to credit institutions	-	1,011	4,018	97,558	-	102,587
Amounts owed to other customers	13,052	16,560	-	-	-	29,612
Derivative financial instruments	-	396	1,450	1,992	-	3,838
Total liabilities	907,637	111,365	23,986	105,988	-	1,148,976

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.

25. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The principal element of market risk to which the Society is exposed is interest rate risk as a retailer of financial instruments, mainly in the form of mortgage and savings products and the holder of both liquid assets and wholesale borrowing. The risk can arise as a result of actual or market anticipation of changes in general interest rates, changes in the relationship between short and long term interest rates and divergence of rates on different bases across assets and liabilities (basis risk).

The Board has set a risk appetite for each element of interest rate risk. The Society ensures compliance with this risk appetite through the monitoring of interest rate risk exposure by the ALCO. In addition to this the Society undertakes a number of interest rate stresses, covering movements in SONIA and the Base Rate. Balance sheet composition is also monitored to determine the extent to which the Society maintains control over the level of interest rates across the balance sheet through administered rate mortgages and savings balances.

The following is the Society's sensitivity to an increase or decrease in market rates at 31 October 2021 assuming a parallel movement of 200bps in yield curves and a constant financial position. 200bps is considered to be an industry standard and therefore appropriate.

	+200bps Parallel	
	Increase	**Decrease**
2021	£'000	£'000
Net interest income impact	(1,093)	1,183

	+200bps Parallel	
	Increase	**Decrease**
2020	£'000	£'000
Net interest income impact	(907)	985

Financial Instruments

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 FRS102.11.38A 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, therefore all financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society has entered into Credit Support Annexes (CSAs) for its derivative instruments which typically provide for the exchange of collateral to mitigate mark to market credit exposure. The CSAs are subject to a minimum transfer threshold. Collateral is only posted once the threshold is reached at which point the whole amount would be posted.

The fair value of derivatives designated as fair value hedges is set out in note 10 above.

26. Pension Scheme

The Society operates a stakeholder defined contribution pension scheme and contributes to some other individual personal pension arrangements. The assets are held separately from those of the Society in independently administered funds. In addition the Society provides death in service cover for its employees. This is fully insured under the Newbury Building Society Death In Service Scheme. The pension cost charge represents contributions payable by the Society to the individual employee funds and death in service premiums and amounted to £785,000 (2020: £737,000). There were pension contributions payable at the year end of £56,000 (2020: £52,000). There was a prepayment at the year end of £33,000 (2020: £27,000) for the Society Death in Service Scheme.

27. Capital Structure

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal annual ICAAP process (Internal Capital Adequacy Assessment Process) assists the Society with its management of capital. Through its regular updates the Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position are reviewed against a stated risk appetite which aims to maintain capital at a minimum level above the Total Capital Requirement (TCR) provided by the PRA.

The Board manages the Society's capital and risk exposures to maintain capital in excess of regulatory requirements which includes monitoring of:

a) Lending Decisions - The Society's lending policy is closely monitored by the Credit Committee to ensure it aligns with the Society's risk appetite.

b) Pricing - Pricing models are utilised for all residential mortgage products. The model includes expected return and capital utilisation enabling the calculation of a return on capital.

c) Concentration risk - The design of both retail and mortgage products takes into account the overall mix of products to ensure that concentration levels are maintained within the Society's risk appetite.

d) Counterparty risk - Deposits are only placed with approved counterparties in line with the Society's treasury policy and are subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

There were no breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are published on the Society's website www.newbury.co.uk or are available by writing to the Company Secretary at our Head Office.

	2021 £000	**2020 £000**
Common Equity Tier 1 Capital		
General reserve	87,747	80,531
Revaluation reserve	1,029	2,245
Intangible assets (1)	(406)	(952)
Total common equity tier 1 capital	88,370	81,824
Tier 2 Capital		
Collective provision	1,499	1,540
Total tier 2 capital	1,499	1,540
Total regulatory capital	89,869	83,364

Notes:
(1) Represents amount of intangible assets deducted from regulatory capital in accordance with Capital Requirements Regulation as amended following the European Union (Withdrawal Agreement) Act 2020

28. Country by Country Reporting

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

- Name, nature of activities and geographical location: The Society has three dormant subsidiaries and was incorporated and operates only in the United Kingdom. Given the dormant status of these subsidaries they are not required to be consolidated. The Society has no ultimate controlling party or parent. The principal activities of the Society are noted in the Strategic report on page 9.
- Average number of employees: as disclosed in Note 7 to the accounts.
- Annual turnover is equivalent to total operating income and along with profit before tax is as disclosed in the Income Statement account on page 43.
- Corporation Tax paid: as noted in the Cash Flow Statements on page 46.
- Public subsidies: there were none received in the year.

29. Subsequent events

At the date of signing these financial statements all devolved governments of the UK had introduced specific measures aimed at slowing the spread of a new variant of Covid-19, Omicron, including a nationwide vaccination booster programme for those eligible to receive it. Whilst the specific measures do not currently extend to regional or national lockdowns, the actions may lead to greater economic uncertainty which create future risks for the Society. Depending on the nature, timing and duration of any further restrictions and any regulatory or government policy response, the Society may expect to see an increase in the levels of requests for forbearance arrangements or arrears. It is not possible to estimate the value of the potential impact on the Society due to the high degrees of uncertainty.

GLOSSARY OF TERMS

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears
A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Basis point
One hundredth of a percent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Contractual maturity
The final payment date of a loan or other financial instrument.

Effective interest rate method (EIR)
The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Forbearance strategies
Strategies to assist borrowers in financial difficulty, such as interest only concessions, payment plans and reduced payment concessions.

General reserves
The accumulation of the Society's post-tax profit since inception. It is the Society's main component of Tier 1 which is a measure of strength and stability.

Impaired loans
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Individually/collectively assessed
Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.

Interest Margin
Represents net interest income divided by mean total assets.

Internal capital adequacy assessment process (ICAAP)
The Group's own assessment of the level of capital that it needs to hold for risks it faces under a business-as-usual scenario and a variety of stress scenarios.

Liquid assets
Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity Coverage Ratio
The liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations.

Liquidity risk
The risk that the Group is not able to meet its financial obligations as they fall due, or will have to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)
A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index).

Loans past due/past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

Management expenses
Management expenses represent the aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of total mean assets.

Market risk
The risk that movements in market risk factors, including interest rates, credit spreads and customer-driven factors will create losses or decrease portfolio values.

Mean total assets
Represents the average of the total assets at the beginning and end of the financial year.

Member
A person who has a share investment or a mortgage loan with the Society.

Net interest income
The difference between interest receivable on assets and similar income and interest payable on liabilities and similar charges.

Replacement cost
The amount the Society would need to replace derivative contracts that are favourable to the Society, if the counterparty with whom the contract was held, were unable to honour their obligation.

Risk appetite
The articulation of the level of risk that the Society is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Residential loans
Residential mortgage loans secured against residential property.

Shares
Money deposited by a person in a savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings
Represents the total of shares, amounts owed to credit institutions and amounts owed to other customers.

Total capital ratio
Measures the Society's reserves (after required adjustments) and collective impairment provisions as a proportion of its risk weighted assets.

Tier 1 capital
A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book value of intangible assets is deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy.

Annual Business Statement as at 31 October 2021

	2021 %	Statutory Limit %
1. Statutory Percentages		
Lending limit	1.1	25
Funding limit	14.4	50

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

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Society plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Society balance sheet.

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

The statutory limits are prescribed in building society legislation and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

	2021 %	2020 %
2. Other Percentages		
Gross capital as a percentage of shares and borrowings	6.79	7.24
Free capital as a percentage of shares and borrowings	6.11	6.32
Liquid assets as a percentage of shares and borrowings	24.48	17.45
Profit after tax as a percentage of mean total assets	0.46	0.27
Management expenses as a percentage of mean total assets	0.94	0.93
Leverage ratio	6.28	6.59
Risk weighted assets £m	431.0	428.6
Capital ratios		
Common equity tier 1 (CET 1) ratio as a percentage of risk weighted assets	20.5%	19.1%
Capital ratio as a percentage of risk weighted assets	20.9%	19.4%

The above percentages have been prepared from the Society accounts:

- 'Shares and Borrowings' represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers;
- 'Gross Capital' represents the aggregate of general reserves and revaluation reserve;
- 'Free Capital' represents the aggregate of gross capital and collective impairment for losses on loans and advances less intangible and tangible fixed assets;
- 'Mean total assets' represents the average of the total assets at the beginning and end of the financial year;
- 'Liquid Assets' has the same meaning ascribed in the Balance Sheet;
- 'Management Expenses' represents the aggregate of administrative expenses and depreciation shown in the Income and Expenditure Account;
- 'Leverage Ratio' represents tier 1 capital divided by total exposure;
- 'Common Equity tier 1' represents core capital built from accumulated profits; and
- 'Capital Ratio' represents total capital as a percentage of risk weighted assets.

3. Directors and Other Officers as at 31 October 2021

Name	Year of Birth	Business occupation	Date first appointed	Other directorships
Peter Brickley BSc (Hons)	1960	Chief Information Officer	01/07/08	Newbury Mortgage Services Ltd Trustee at The Brain and Spine Foundation
Lee Bambridge BA (Hons), ACA, AMCT	1963	Building Society Chief Risk Officer	23/07/07	Sovereign Housing Association
Chris Brown BA (Hons), Eng, Oxon	1961	Group IT Director	01/06/19	
Phillippa Cardno PGCert, CeMap	1969	Building Society Operations & Sales Director	19/02/15	Temptings Ltd
Roland Gardner MA (Hons)	1960	Building Society Chief Executive	01/09/06	Newbury Mortgage Services Ltd; Newbury Financial Services Ltd; Newbury Insurance Services Ltd
Darren Garner FCCA	1971	Building Society Financial Director	03/08/20	Trustee at Royal Surgical Aid Society (trading as Dementia Carers Count)
Sarah Hordern BA (Hons), ACA	1972	Director	19/02/15	Perspicio Limited Oxford University Hospitals NHS Trust Modulous Ltd
William Roberts BSc (Hons), ACA	1970	Finance Director	19/02/15	Hastoe Capital Plc; Hastoe Homes Ltd; Lowen Homes Ltd
Alistair Welham	1963	Head of Marketing Communications	24/02/20	Trustee Brighton Student Union
John Piers Williamson BA (Hons), FCT, ACIB	1961	Chief Executive	01/01/18	THFC Group Companies: The Housing Finance Corporation Limited*; T.H.F.C. (Indexed) Limited*; T.H.F.C. (Indexed 2) Limited*; T.H.F.C. (First Variable) Limited*; T.H.F.C. (Services) Limited; T.H.F.C. (Social Housing Finance) Limited*; T.H.F.C. (Capital) PLC; UK Rents (No.1) PLC; UK Rents (Holdings) Limited; UK Rents Trustee Limited; HFP 2019 Limited THFC Managed Companies: T.H.F.C. (Funding No.1) PLC; T.H.F.C. (Funding No.2) PLC; T.H.F.C. (Funding No. 3) PLC; Haven Funding PLC; Haven Funding (32) PLC; Harbour Funding PLC; Sunderland (SHG) Finance PLC; Affordable Housing Finance PLC; Blend Funding PLC *Community Benefit Society

Roland Gardner, Lee Bambridge and Phillippa Cardno each have a service contract with the Society terminable by either party giving 12 months' notice. The agreements were signed on 30 July 2018. Darren Garner has a service contract signed on 22 April 2020 with the Society terminable by either party giving six months' notice.

Other Officers

Jim Bendon - Head of IT and Business Change

Melanie Mildenhall - Head of Customer Service

Erika Neves BSc (Hons), DIMA - Head of Risk and Company Secretary

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