Annual Report.

Year ended 30 November 2021

Suffolk Building Society

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suffolkbuildingsociety.co.uk

Our members are at the heart of everything we do.

We exist to benefit our members - now and for the future.

> “We're driven by doing what's right, not what shareholders might demand. And our reputation is based on how well we serve.”

Contents.

Chairman's Report.

It won't have escaped your notice that our corporate identity has changed, and we are now serving our community in our new name – Suffolk Building Society – approved by 93% of voting members at our 2020 Annual General Meeting (AGM).

The rebrand itself was a great success and has given the Society cause for celebration during another challenging year. I've received positive feedback from members and contemporaries within the industry and have seen for myself how invigorating it is for the whole Society.

Staff take enormous pride in 'their' branches and were thrilled to see them redecorated and refreshed for existing and prospective members. This is just the beginning of a new chapter for the Society and I am excited to see 2022 unfold with new projects which include a complete review of our member proposition and an increased emphasis on Environmental, Social and Governance (ESG).

During this year of reinvention and transformation, and the ongoing effects and challenges of the COVID-19 pandemic, Suffolk Building Society has delivered a very strong performance.

Another year of strong growth in the Society's mortgage book has been due in part to the still-buoyant housing market. However, it's also been down to our strategy of manual underwriting and greater emphasis targeting our niche markets including self build, buy-to-let and holiday let, as well as our increased focus on building strong broker relationships. All supported by investment in our business development team.

To address the challenges of home ownership we have re-introduced shared ownership and brought back 90% Loan-to-value (LTV) products in which we have a strong and growing pipeline.

We have successfully achieved last years mortgage growth while maintaining a high quality service to members and intermediary customers, while still investing for the future.

We are clear on our purpose and as part of our rebrand to Suffolk Building Society have refreshed our strategy which remains grounded in mutuality and is built around our vision, mission and values all aligned with our 172-year-old purpose of providing safe homes to our communities.

Changing the Society's name and livery offered an opportunity to revisit all three.

Everything we do is focused on our members and our key stakeholders especially our colleagues, our intermediary partners and the local communities we support.

As a mutual organisation it is important that we engage with all our stakeholders. Last year's AGM again included a question and answer section from members. All members who submitted questions received individual responses. During the year the Society started to use Smart Money People so that members and intermediaries could provide direct feedback. Examples of that feedback are provided throughout the Report and Accounts.

As always, we need to carefully balance the need to retain sufficient earnings to ensure the sustainability of the Society for the members, employees and local community, whilst acknowledging that it is crucial to invest in and grow the business to ensure relevance and sustainability.

The Society is pleased to report that retail savings balances have increased by £23.5m since last year (2020: £21.0m) and the Society opened 2,772 new accounts during the year (2020: 3,017) which included 935 new savings members. With the pandemic ongoing in the background, the Society continues to make electronic withdrawals simpler and is offering more services via email, post and telephone.

2021 has been dominated by the ongoing effects of the pandemic and we've seen supply chain challenges, rising fuel and energy costs and shortages in the labour market. This has continued to have an impact on people's health, their personal lives and livelihoods.

This has meant that keeping a branch network open has been a challenge, but I'm proud to say that staff continued to go above and beyond in this respect to ensure our doors were open for members.

It is important we recognise the efforts of so many in our communities in what has been such a challenging time. This is also true of our Suffolk Building Society team who have continued to support our members either by working from home, socially distanced in head office or who have kept our branches open 94% of the time.

This quote from our new customer review platform Smart Money People speaks volumes:

"It's brilliant you have branches with helpful staff open on the high street. It is so great to talk to real people." (Aldeburgh branch review on Smart Money People).

An exceptional commitment to members and customers has been demonstrated by colleagues across the Society and we are proud of what they have delivered.

We continue to focus on running the Society in the interests of our members and ensuring a sustainable business to deliver long term success and the features of our financial results for the year include:

- Mortgage balances have increased by £47m to £615m with completions of £175m (2020: £123m).
- Our targeted approach delivered a strong net interest margin of 1.9% (2020: 1.8%) on total mortgage balances of £615m at year end (2020: £568m).
- We expanded our product offering during the year with a return to 90% Loan-to-value (LTV) mortgages and the reintroduction of shared ownership. This sits alongside lending £22m on self-build and increasing our maximum loan value to £1m for 80% residential and buy-to-let products.
- Savings balances increased by £23.5m to £648m.

- We introduced Smart Money People - an online financial services review platform - to enable members and intermediaries to give feedback more easily and to enable us to monitor our service more effectively.
- Supporting our communities: Total of £26,300 to local good causes, including 9 local charities.
- Profit before tax increased to £2.9m (2020: £1.9m) and Net interest income increased to £13.5m from £12.0m and net interest margin improved to 1.9% from 1.8%.
- Capital and liquidity strength: Common Equity Tier 1 (CET 1) ratio remains well above statutory requirements at 14.1% whilst the Society's Leverage Ratio was broadly maintained at 4.9%. The Liquidity Coverage Ratio of 188% is also considerably above the regulatory minimum requirement.
- Management expenses were £10.8m. We continue to invest significantly in technology infrastructure and enhanced digital capability.

The Society's governance and oversight has been even more important than ever in 2021 with the pandemic challenging so many areas of our operations. Linked with our management systems and controls, and supported and managed through our use of Enterprise Risk Management, this is all about ensuring that the Society takes risks within appetite and that these risks are understood and are effectively managed.

A strong and effective Board is instrumental in this respect and I would therefore like to thank all my colleagues on the Board for their hard work and unstinting support. It has been a hugely successful year of transformation, while achieving an excellent rate of growth. Thank you.

The newly named Suffolk Building Society has benefited from our members choosing it as a safe home for their savings in a time of great uncertainty, sacrifice, and change. Our mortgage range has been upgraded and improved and our intermediary partners have supported us in greater numbers.

We are well placed to continue to grow our Society together in 2022. Thank you to all our team members who are making this possible. Your commitment to service and innovation continues to be outstanding.

Alan Harris
Chairman
3 February 2022

Suffolk Building Society

Our vision.

To be a strong, growing, fiercely independent building society.

Our mission.

To be a safe home for savers and to provide safe homes for our communities.

Our values.

MEMBERSHIP

Our members are at the heart of everything we do.

ACCESSIBILITY

Our door is open and it's got real people behind it.

COMMUNITY

Our community isn't just where we are; it's how we are.

Chief Executive's Report.

Introduction

If 2020 was 'unprecedented' then I believe that the word 'reinvention' is how the Society will remember 2021. As I reflect on a hugely transformative 12 months, it gives me enormous pride to write the very first 'Suffolk Building Society' Chief Executive's Report.

Our Society

Changing our name to Suffolk Building Society in November 2021 presented an opportunity to revisit our values and 172-year-old mission, while transforming how our brand appears across our branch network and digital channels.

Acknowledging that we have achieved this rebrand during yet another year of social turmoil due to the pandemic is testament to the dedication and commitment of the team here at the Society. Each department pulled out all the stops to ensure we ended this financial year in a superb position for the next chapter in the Society's history.

When the Society was established back in 1849 the intention was to support everyday people to have a safe home and to have a safe home for their savings.

Our name change allowed us to re-examine how our values – Membership, Community and Accessibility – shape our decisions for the twenty-first century.

We were able to celebrate our new name with our nine simultaneous outdoor ribbon-cutting events with charity partners at each branch across Suffolk. And as we shared out a rather large logo-shaped cake it did indeed feel like a birthday: day one of the new Suffolk Building Society. Of course, COVID-19 restrictions did mean that our launch events were constrained in some manner to ensure the safety of our employees and members.

Our members

Suffolk Building Society is a new name that's more inclusive, connecting to a broader community – and an old name that marks our historic commitment to Suffolk.

Before we decided to change our name for the first time since 1975, we asked our members what they thought, in a series of focus groups. At our 170th AGM on 25 March 2020, 93% of members approved the change. We will continue to engage with members to find out what products and services best suit their financial needs and ambitions.

Physical branches in the community are at the heart of our offering, even in this digital age. As well as taking our new brand online with two great new websites – more on those later – we've brought the brand to life in the real world with glossy new signage and livery at each of our nine branches and at our agency in Capel. We've also taken the opportunity to give a light-touch refresh at each location and to kit staff out in smart new uniforms.

As well as traditional methods of interaction with members, we are ramping up digital engagement. Before our new member website went live in November, we got in contact via our email newsletter Freehold Post to find a group of members who would 'test drive' our new website before it launched. We obtained some fantastic insight and extend a huge thank you to everyone who took part.

Our member-facing site contains a savings and mortgage finder – allowing members to quickly find a product that's of interest to them. And we've also included plenty of online forms to contact the right team quickly. This sits alongside lots of information about our products.

'When will you be offering online savings?' is a question I am frequently asked. The answer is this is absolutely a priority for us. What we won't do is roll something out which doesn't sit with the face-to-face experience we offer in branch. The digital offering and physical offering must function seamlessly. This is a huge undertaking and not one we will rush at the expense of member experience.

On the subject of digital enhancements, we're close to completing a transformation project to upgrade our mortgage origination platform to enable it to reflect our niche product proposition. This is the interface between our intermediary business and the Society. Now that our rebrand project is in our rear-view mirror, we can focus on going live with this upgraded system which will significantly improve the experience for staff, members and intermediaries.

Our Community

As a mutual we're driven by doing what's right, not what shareholders might demand. For example, this winter we supported, as we have for many years, Suffolk Community Foundation's Surviving Winter Appeal. Encouraging donations in branch, we promoted this much needed and high-impact campaign using our county-wide network.

With the Society's drive to be more inclusive, we jumped at the chance to support Felixstowe WAMfest, which showcased women of all ages in music and the arts across diverse genres.

The Society also helped protect the oldest, yet critically endangered, English horse breed through a donation to The Suffolk Punch Trust, enjoying a slot on BBC Radio Suffolk recorded at the Colony Bay Stud.

Our Executive team-building day was spent learning bush craft in the forest with environmental charity Green Light Trust, supporting our climate change commitments as well as our wellbeing. Staff volunteering has always featured in our DNA. This year we helped with two big ‘clean ups’ – helping with the Marine Conservation Beach clean in Southwold, and with the Saxmundham Green Team tidying the orchard area of the Memorial Field – planted in 2015 to commemorate 40 people from the town who lost their lives in the First World War.

At the core of our community are the 161 staff of the Society who support our members. I couldn’t be prouder of the fantastic job they’ve done in extremely challenging circumstances They’ve juggled working from home, home-schooling and self-isolation to support all our members. As keyworkers, some of our staff have had to get out into the community to open up branches for members that needed face-to-face interaction.

Not only have our teams navigated the pandemic professionally and personally, they’ve also rolled out a hugely successful rebrand project. It’s been an enormous task spanning almost two years and involving every corner of the Society, for which I thank all our staff for a great job well done.

I am delighted we have been able to recognise and reward staff who look after our members so well.

Our Vision

“To be a strong, growing, fiercely independent building society.”

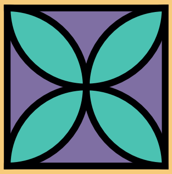
The past two years have seen almost every business model across the UK stretched to its limits. However, the Society’s financial position is as strong as it’s ever been. This is in part thanks to the financial stress modelling we do as part of our risk and regulatory responsibilities.

Various factors have led to a strong housing market: pent up demand following lockdown, the desire for more space for hybrid working, the stamp duty holiday which ended on 30 September 2021 with tapering, and record low interest rates. We’ve seen the highest ever level of our mortgage pipeline. However, our mortgage growth success this year hasn’t all been down to the economic backdrop.

We’ve adapted to market conditions and members’ needs, have re-introduced shared ownership, brought back 90% LTV products and enhanced our self-build and large loans proposition. By providing niche products as well as standard residential mortgages we can deliver our mission of providing safe homes for our communities.

Our lending and business development teams have adapted to new ways of ‘online networking’, presenting to peers and panels on a range of topics including later life lending, expat, self-build, the new-build market, and holiday let lending.

£26,300 Total donated to Suffolk causes



Carbon footprint 10% smaller 2019 to 2020

Colleague Engagement score 74.6%

Chief Executive's Report continued.

Our future

It's impossible to talk of the future of the Society without a reference to the climate emergency. The 2021 United Nations Climate Change Conference, more commonly referred to as COP26, and the resulting Glasgow Climate Pact, resonated with wider audiences more than ever before.

Safeguarding the environment isn't a new priority for us but as the climate crisis has deepened, so has our commitment to doing our bit. We are taking urgent steps to reduce our carbon emissions from our operations to net zero by 2030 – which exceeds the UN's own target of 2050 and aligns with Suffolk County Council's 2030 target.

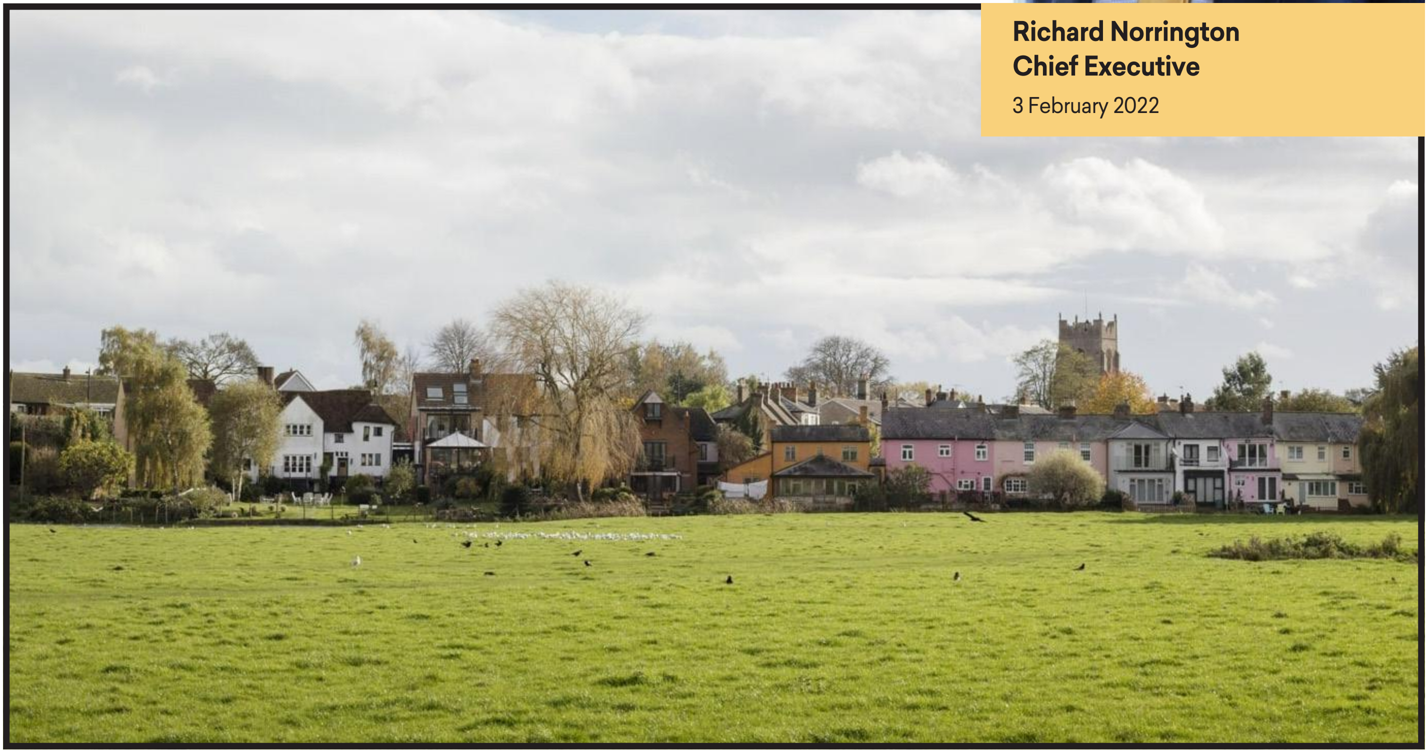
This year we are embarking on a membership proposition research project to determine which environmental and societal causes most resonate with our members. By doing this, we can address the issues that most concern our local communities and become more relevant to the younger generation.

We will also be developing financial products that can have a positive impact on members' climate footprint and we look forward to sharing these plans soon.

By investing in our new look and feel - in our branches, in technology, and in the environment - and given the quality of the Suffolk Building Society team, I believe we are setting ourselves on the best possible course to meet bold ambitions for our future and for that of our stakeholders. Follow us on our social media channels @suffolkbuildingsoc and share your thoughts.

I look forward to your involvement at our 172nd AGM. Thank you for being a member of Suffolk Building Society.

Richard Norrington
Chief Executive
3 February 2022



Directors' Report.

The Directors have pleasure in presenting the 172nd Annual Report and Accounts for the year ended 30 November 2021.

This report sets out the Society's progress against its strategy and provides information about the Society's performance against key performance indicators. The contents of this report should be read in conjunction with the Chairman's and Chief Executive's Reports.

Despite the ongoing challenges of the pandemic, and investments in major projects such as the rebrand and mortgage origination platform transformation, the Society has this year achieved a 53% increase in profit before tax, strong mortgage growth and a new name to start the 2022 financial year.

Business objectives and activities

For 172 years the Society has been bringing savers and borrowers together for their common benefit. Offering simple and straightforward savings products to investing members and providing mortgages so that borrowing members can buy a home has been the Society's main purpose since it was established.

The rebrand offered an opportunity to re-state the Society's vision "to be a strong, growing, fiercely independent building society".

Business review

The Society ended the year with a profit before tax of £2.9m (2020: £1.9m). In addition, the Society's retail savings have grown significantly by £23.5m to £647.8m, the majority of which flowed inwards during the first half of the year. The Society's mortgage asset increased by £47.0m from the prior year.

As an essential service, the Society managed to keep its branch network open for the vast majority of the time and maintain great service standards for members.

Refreshing the livery and signage at nine branches and one agency, and creating two brand new websites, was no mean feat and the Directors would like to express their sincere thanks to all Society employees who achieved this during such unprecedented times.

The Society's branch network has always provided an invaluable face-to-face service to our members and it has continued to do so. Recognising the needs of our members to conduct activities in new ways we have continued to process increased numbers of transactions via post, email and on the telephone. Some of our branches are still operating reduced opening hours to ensure consistent service so these new methods are crucial. The team are constantly looking for innovative ways to further improve the member experience.

As part of the Society's digital improvement journey and ultimate vision of online savings, we have spent much of the year progressing the project to replace the Society's mortgage origination system. When rolled out in 2022, this will give us more flexibility with product features and allow us to be quicker at reacting to market changes. In addition, it will increase our overall service levels and operating efficiency – which all combine to increase our attractiveness to brokers.

The development of a digital offering to members and other key stakeholders is key to ensuring the Society's relevance and sustainability.

The Society has continued to focus its efforts on its strategic aim to offer carefully crafted lending products that are intended to meet the needs of customers who may otherwise find it difficult to obtain a mortgage from larger organisations. This means the mix of the different types of lending that the Society has to offer remains varied.

Profit before tax of £2.9m

Retail savings have grown to £648m

Mortgage asset increased to £615m

Directors' Report continued.

Amongst the type of products that the Society offers are self-build, expat and later life mortgages. This year we re-introduced shared ownership and 90% LTV mortgages which support our mission of safe homes for our communities.

Our individual underwriting of each mortgage means that we are able to assess applications on a case-by-case basis and our Lending Team continues to operate a flexible manual approach with a view to helping as many people as possible. The Lending Team processed 1,159 mortgage applications in 2021 (compared to 1,139 applications in 2020). This resulted in 818 completions for the year with an average loan size of £214k. The Society continues to monitor and publish service levels to internal and external customers.

This year we have completed on 49 self-build cases and lent over £22m to those self-building; we are planning to launch a new self-build large loan product in early 2022 supporting larger projects that are looking to borrow between £1m and £2m.

Home values are still rising with estimates ranging from 10% (Nationwide), and 14.1% (Halifax) over the year ending November 2021. Accordingly, from 7 December we increased our maximum loan across residential and buy-to-let products to £1m up to 80% LTV.

The Society has widened and refocused its intermediary distribution to maximise efficiency and build a basis for key account management. The team has for the second year running adapted to virtual networking events, keeping business flowing by attending in-person visits where possible, as well as virtual webinars, panel debates and pre-recorded presentations. The team presented on a host of specialisms including later life lending, expat, self-build and holiday lets.

This year the work carried out by our Collections Team has been vital to the support that we have been able to provide to our members who may have been experiencing payment difficulties.

Each month the Collections Team write to, and call, borrowers with Interest Only mortgages that have 5 years, 2 years, 1 year or 1 month remaining on their term. The overall response rate to these reminders was 80%.

Looking ahead

The Directors are committed to ensuring the long-term sustainability of the Society and have in place a three-year corporate plan dedicated to maintaining the Society as an independent mutual society. The Society's mission is to support people in our community to buy a home and save for the future by providing carefully crafted products and attentive service.

Despite solid retail inflow this year the Society, like its fellow mutual societies, faces the dual threat of an ageing membership base and digital competition. As we introduce digital savings, our high street branch proposition must offer something more beyond a location in which to transact. To remain relevant and therefore sustainable for the long term the Society needs to develop its membership proposition based on its brand values.

In early 2022 we will embark on a focused, relevant programme to bring mutuality alive through community engagement and social purpose. By being member-led, focused on developing member relationships and targeting key life moments, we will achieve differentiation through clear and relevant social purpose supported by active community engagement.

In this way we can offer a proposition which appeals across age groups and across different segments. Community engagement and social purpose offer opportunities to significantly differentiate ourselves in any scenario, if we focus on a clear and relevant theme.

Following the launch of the new website, the Society's digital improvement journey will continue into 2022. We have already begun work on a project that will look at how the Society's branch network and the new online savings offering will complement each other, ensuring a consistent experience whether members are in branch or online. Alongside this, we'll be creating a detailed specification for our new e-Savings platform and reviewing the current offering for similar platforms in the market today, ensuring we deliver a solution that can deliver clear value to members.

We are also looking at improvements that can be made at every step of the customer's journey. The safety of members' savings is paramount, and the Society will be carefully considering this when developing the online channel so that all necessary protections are in place to guard against potential threats.

The Society is well placed with its strong and individual offering to the mortgage market and has an ability to underwrite individually and look at each and every mortgage application purely on its merits, using our own judgement to assess outgoings and affordability. Maintaining administrative expenses to an appropriate level is important for the sustainability of the Society and the Society is committed to ensuring that its processes are as efficient as possible to maintain control of costs. The Society remains an active participant in the Bank of England's Sterling Monetary Framework (SMF), and alongside many other financial institutions, participated in the Bank of England's Term Funding Scheme. At 30 November 2021 amounts borrowed under this Scheme amounted to £55m (2020: £30m).

Key Performance Indicators

Key performance indicators	2019	2020	2021
Mortgage asset (£m)	523	568	615
Mortgage advances (£m)	113	123	175
Arrears cases over 12 months (no.)	7	13	17
Retail savings balances (£m)	603	624	648
Profit before tax (£m)	1.9	1.9	2.9
Management expenses (£m)	9.3	9.4	10.8
Investment spend (£m)	0.5	0.4	1.4
Total regulatory capital (£m)	35	37	38

Mortgage asset and mortgage advances

The Society's lending proposition is to provide mortgages through a network of approved mortgage brokers, as well as directly from the Society. The Society does not rely solely upon credit scoring as all loans are individually underwritten by our underwriters. The Society's mortgage book increased by £47.0m during the year.

The Society had a strong and consistent mortgage performance across the year.

The majority of mortgage growth for the year was the result of a very buoyant property market and the stamp duty holiday finally ended on 30 September 2021 after being phased out over the summer. The Society had to carefully manage product offerings to ensure that the Society was able to operationally manage the level of business received and to ensure service levels remained acceptable within the market.

The Society is entering 2022 with a strong pipeline of a similar level to the beginning of the previous year.

However, the Society recognises that future activity within the property market remains uncertain, more interest rate rises cannot be ruled out and energy and food prices seem set to continue to rise in 2022.

Arrears

The Society arrears levels currently remain low. However, the Society acknowledges the financial impact that the COVID pandemic may have on members. The Society has a dedicated arrears team who aim to support members with payment difficulties with a sympathetic approach, and aim to agree sensible and affordable payment arrangements with those borrowers wherever possible to enable them to manage their payments.

At 30 November 2021 there were 17 (2020: 13) mortgage accounts where the arrears were the equivalent of 12 months' payments or more. The total amount of principal outstanding in these cases was £2.3m (2020: £1.8m). The increase is largely due to the COVID moratorium earlier in the year and subsequent backlog in Court Hearings.

The total amount of arrears was £467k (2020: £250k). At 30 November 2021, the Society had 2 (2020: 2) properties in possession. We had 12 accounts in 2021 that were able to exit forbearance measures and either resume normal payments or redeem the account.

At 30 November 2021, the Society had 63 (2020: 71) mortgage accounts subject to forbearance, which equates to 1.40% by number of the total mortgage book. These mortgage accounts have a total balance of £5.6m (2020: £5.5m). 34 (2020: 38) of these cases are currently in arrears, with total arrears balances of £122k (2020: £107k). Where the Society considers there is a possibility of loss, a provision is made in accordance with the Society's policies.

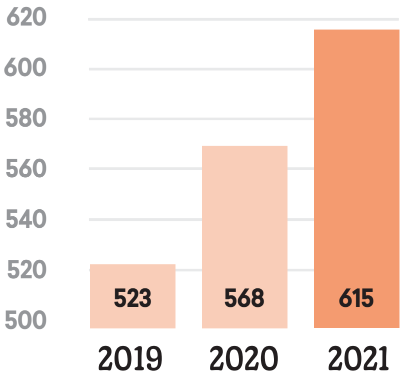
1,159 mortgage applications processed in 2021

Arrears cases fallen by 10%

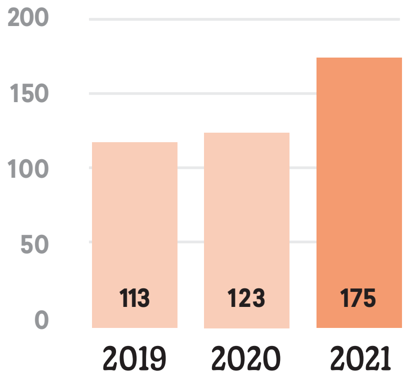
8% increase in staff headcount

Directors' Report continued.

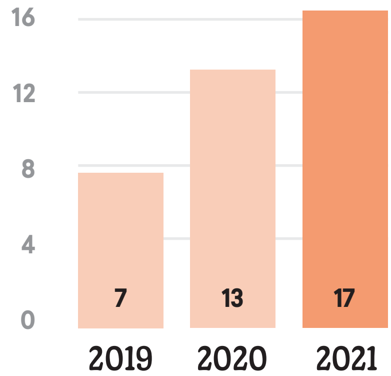
Mortgage assets (£m)



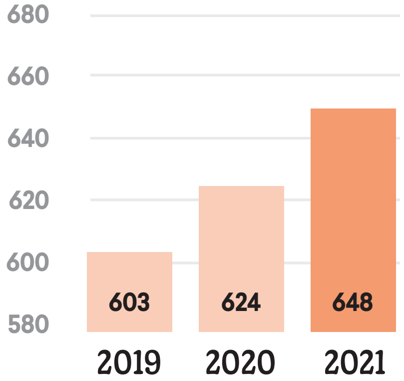
Mortgage advances (£m)



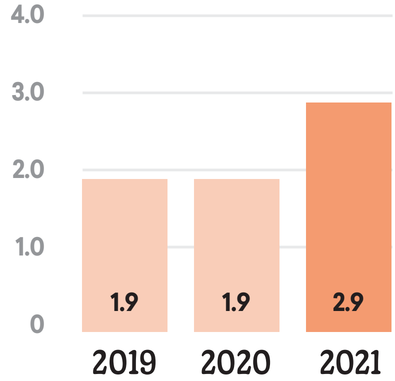
Arrears cases



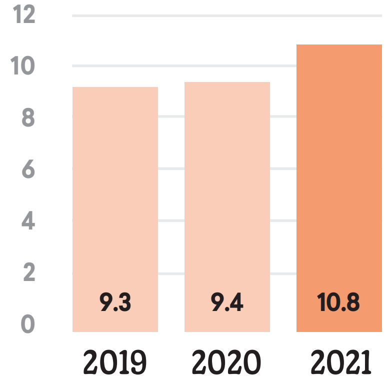
Retail savings balances (£m)



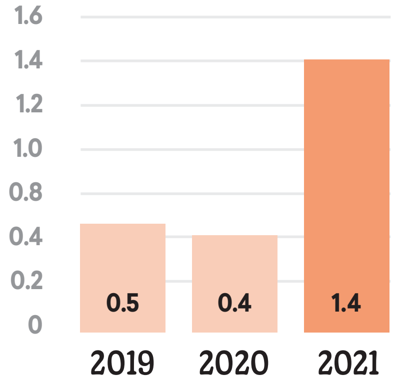
Profit before tax (£m)



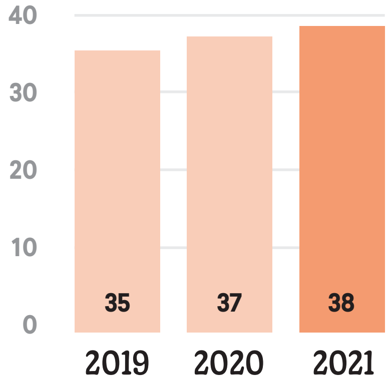
Management expenses (£m)



Investment spend (£m)



Total regulatory capital (£m)



Retail savings balances

The Society is pleased to note that retail savings balances have increased by £23.5m since last year (2020: £21.0m) and the Society opened 2,772 new accounts during the year (2020: 3,017). To keep our members and staff safe we have continued to operate reduced opening hours which has impacted on our capacity to undertake our popular face-to-face account opening facility. We have adjusted our approach so the same friendly branch staff can now undertake new account appointments on the telephone and open accounts remotely using post and email channels.

Despite another unsettled year the Society attracted 935 new savings members. Total membership now stands at 66,708 (2020: 68,668). However, net new accounts for the year were negative.

The first Child Trust Funds started to mature last year and this work has continued into this year, with 3,000 account holders contacted. We were pleased to have retained 26% of these funds (£972k).

Profit for the financial year

The Society achieved a profit before tax of £2.9m (2020: £1.9m). This has meant we have been able to add to capital, and the additional profit will be reinvested into the Society for the benefit of members.

Achieving a profit is important for the long-term sustainability of the Society because it enables the Society to add to its capital reserves and grow further. However, the Society is also cognisant that it needs to invest in its future to stay relevant. This strong profit growth has allowed us to invest in the brand and mortgage platform and will allow us to invest in the Society's development of its online savings proposition.

The Board remains confident the Society can remain profitable over the three-year corporate plan period which will build the capital required to support increased lending and revenue at a rate faster than the rate of growth of management expenses whilst still investing in the future of the Society.

Management expenses

Management expenses consist of administrative expenses, depreciation and amortisation. The Board will exercise close control over costs in the coming years whilst acknowledging the need to attract and retain high quality in staff in a highly competitive labour market.

In 2021 management expenses were £10.8m. Continued focus and management attention on costs is vital this year, particularly as the Society continues its digital improvement journey. We must be cognisant of inflation and low unemployment and the need to continue to attract and retain talent.

Capital

The Society's total regulatory capital is £38 million, an increase of £1 million from the previous year. The capital position therefore remains strong, giving the Society a sound platform from which to grow further. The Tier 1 Capital Ratio was 14.1% at 30 November 2021 (2020: 14.5%) - primarily the result of the increase in mortgage assets.

As part of the Capital Requirements Directives (CRD) the Board has conducted an assessment of the adequacy of the Society's capital resources. Information about the Society's Pillar 3 disclosures, which are a requirement of the CRD, together with the disclosure to comply with the requirements of Article 89 of the Capital Requirements Directive IV (CRD IV), are provided on the Society's website www.suffolkbuildingsociety.co.uk.

Profit before tax increase of 53%

Total regulatory capital £38m

935 new savings members

Directors' Report continued.

Community

The Society has a strong commitment to social responsibility in all its forms. The Society continues to offer matched funding to employees for personal sponsorship of local charities and volunteering programmes where it is safe to do so at this time.

This winter we supported, as we have for many years, Suffolk Community Foundation's Surviving Winter Appeal. Encouraging donations in branch, we promoted this much-needed and high-impact campaign using our county-wide network.

The Society sponsored Felixstowe WAMfest, which showcased women of all ages in music and the arts across diverse genres. In addition, we helped protect the critically endangered, iconic horse breed the Suffolk Punch.

Through our charity accounts WeCare and Mutual Advantage the Society supported an additional 12 Suffolk charities, which all strongly resonate with members, from search and rescue and food banks, to the arts and medical research.

Climate Change and the environment

As part of our commitment to our local community and the climate emergency we've ramped up the measurement of our environmental impact and looked at ways in which we can reduce it. The Society was once again awarded the Silver Suffolk Carbon Charter Award in 2021 as recognition for the measures we have implemented to reduce our carbon emissions. However there is more to be done.

We have committed to reduce our carbon emissions from our operations to net zero by 2030 – which exceeds the UN's own target of 2050 and aligns with Suffolk County Council's 2030 target.

...and what that means in numbers

2018 – 59.5 (tCO2e) footprint
2019 – 45.0 (tCO2e) footprint
2020 – 37.3 (tCO2e) footprint

To achieve our target we are looking at improving the efficiency of our heating from a sustainable source at Head Office, adding addition insulation at our Head Office and branches, purchasing 100% renewable electricity by the end of 2024, and moving from gas to electric heating within our branch network. We will also review the possibility of installing Solar PV panels to those branch premises owned by the Society to complement those installed at our Head Office.

We arranged for 10 staff to attend a bespoke Carbon Charter course and achieve the Carbon Literacy accreditation. Another course is planned for March for a further 15 staff members.

To reduce our transport carbon footprint we will look to switch to electric cars and vans when appropriate to do so and install charging points at Head Office, to help encourage staff to buy electric cars.

We will also be developing financial products that can have a positive impact on a member's climate footprint and we look forward to sharing these plans soon.

Customer experience and satisfaction

This year we introduced an external customer review service – Smart Money People – where members and brokers leave feedback on our products and service levels. The dashboard delivers high quality competitive benchmarking and uses artificial intelligence to analyse the free text left by members. We have promoted Smart Money People in branches, email member communications and on our website and it has been particularly successful within the intermediary market with brokers.

This year we have also introduced service level agreements on telephone answering and this is reported at monthly Senior Leadership Team meetings to ensure we remain within 'green' levels and that any drops in service are addressed as a priority. This year we handled 17,461 incoming phone calls to our intermediary business and 4,246 incoming phone calls to our direct mortgage team.

In addition to Smart Money People we continually listen to members at a branch level and constantly review our processes. This year we carried out a root and branch review of our financial crime processes as a direct result of customer feedback and have improved the member experience, whilst still ensuring we meet our regulatory obligations and protecting members accounts from fraud.

Our People

A total number of 162 people were employed by the Society at year end, with 66 of them on part-time contracts. During the year, the Society implemented a reorganisation design which categorised the Society into 5 separate divisions.

As part of our commitment to the health and wellbeing of our most valuable asset we provide an Employee Assistance Programme, a Health Care Plan through Medicash and alignment with associated organisations that focus on both health and wellbeing. We strongly encourage all staff to take full advantage of these schemes.

In addition to internal promotions and development, the Society currently has 11 members of staff studying for external qualifications.

Engagement Multiplier is an employee engagement platform that allows the Society to see at a glance where it stands with regards certain categories and is also a two-way communication tool which enables leaders to follow up on employee feedback.

We continue our commitment to diversity and inclusion and have begun measuring ethnic representation to ensure a diverse workforce. We are also a signatory to the Women in Finance initiative, where we've committed to achieving 40% female representation in senior management by November 2024 (in November 2021 this was 33%).

The Society has accelerated its hybrid and flexible working policies and, where the role meets members' needs, part-time, job share and flexible working options are offered within job roles.

Key Risk Objective	Level 1 Risk
FINANCIAL Our objective is to manage profit volatility within defined parameters with capital and liquidity at levels that allow the Society to operate effectively in both normal and stressed conditions.	• Capital • Liquidity & Funding • Interest Rate Risk • Wholesale Credit Risk • Financial Reporting & Regulatory Returns • Model Risk
RETAIL CREDIT Our objective is to manage and control credit risk within defined limits and exposures and to underwrite more complex mortgages for our customers that fit with our underwriting expertise.	• Lending Quality • Concentration Risk • Credit Monitoring • Problem Debt Management • Climate Change
OPERATIONAL Our objective is to develop and maintain cost-effective and operationally resilient systems, infrastructure and processes (including those provided by a 3rd party) to deliver the corporate strategy. We will have in place the right number of skilled and motivated people. We will develop and retain our best talent.	• Information Security & Records Management (inc. Data Quality) • Systems (inc. Change Management) • Third Party Suppliers • Fraud • People Risk
CONDUCT In striving to deliver good customer outcomes consistent with our vision, our foundations are the delivery of compliant products, processes and systems in how we treat or interact with our customers. We will seek full compliance with appropriate regulations.	• Product Design • Sales – Savings • Sales – Mortgages • Post Sales – Savings • Post Sales – Mortgages • Governance & Culture • Legal Risk • Financial Crime • Compliance Oversight

Directors

The Directors of the Society during the year were as follows:

Alan Harris (Chairman)
Ian Brighton (Executive Director)
Sian Hill
Paul Johnson (Executive Director)
Elaine Lenc
Steve Liddell
Richard Norrington (Executive Director)
Steve Reid
Fiona Ryder

Principal risks and uncertainties

During 2021 the Society continued to adopt a generative risk management culture to deliver the following headline risk objectives:

- To ensure that it holds sufficient capital, so no investor suffers a loss in all reasonably foreseeable circumstances.
- To hold sufficient liquidity to ensure all payments and expenses due can be met on time.
- To hold sufficient liquidity to ensure members' requests to withdraw funds can be met in all reasonably foreseeable circumstances.
- To be operationally resilient so members can still access important business services in extreme but plausible scenarios.

The Society's risk strategy provides clarity on the objectives for risk management across the Society and highlights the linkages between our corporate strategy, capital requirements and risk appetite. This supports the development of a more detailed articulation of the types and materiality of risk that the Society is prepared to take in pursuit of its strategic objectives, which is then outlined in the Society's risk appetite statement. Each risk is monitored monthly through relevant and forward looking risk appetite limits and triggers (early warning indicators). The risk strategy forms part of the Society's Enterprise Risk Management Framework (ERMF).

Directors' Report continued.

The key risks incurred in the Society's activities include retail credit, financial, operational and conduct. Key risk objectives and Level 1 risk categories, which are based on the Society's strategic objectives, are outlined in the the table on page 15. Each Level 1 risk is owned by a nominated member of the Society's Senior Leadership Team. In the event of a Level 1 risk being deemed outside Board-approved appetite, management actions are put in place to ensure the Society operates adequate and effective controls within Board approved limits over the longer term.

The Society has an Executive Risk Committee (ERC) that monitors and reports monthly on the Society's risk profile to Board Risk and Compliance Committee. Retail Credit Risk Committee, Assets and Liabilities Committee, and the Operational and Conduct Risk Committee report to the ERC.

The risk profile of the Society has remained stable during 2021. Material risks remain around protecting the Society and its members from financial crime and cyber crime. 2021 has also required the Society to effectively manage the operational risks arising from the ongoing COVID-19 pandemic. During this period, we have maintained service levels for members whilst meeting government requirements on protecting our staff and members.

We continue to carefully manage the Society's liquidity risk, assess and set aside sufficient capital to protect members from all reasonable, foreseeable circumstances and ensure we manage our retail credit risk within pre-agreed risk appetite levels. We continue to ensure we meet all regulatory requirements and conduct business to ensure good customer outcomes.

We maintain procedures to help our staff to identify and support our members who may be vulnerable. We are also focused on ensuring we have the ability to deliver our core services across a range of operational threats.

Capital risk:

The Board complies with the Capital Requirements Directive IV (CRD IV) which requires the Society to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). To assist the Board in determining the level of capital required, stress testing and scenario analysis is performed on key business risks to assess whether the Society could survive a severe economic downturn and other severe business shocks. Through this process the Board ensures that the Society holds a level of capital sufficient to satisfy regulatory requirements and meet our own internal capital assessment. The Pillar 3 disclosures required under the CRD are available from the Society's Secretary, or on our website.

Liquidity risk:

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. This includes requests from members to withdraw funds and complete new mortgage drawdowns. The Society is required by regulation to hold a calculated level of liquidity. Liquidity investments are held in either on-call accounts or as short term dated investments including Certificates of Deposit (CDs) and Floating Rate Notes (FRNs). However, we hold the majority of our on-call liquidity investments with the Bank of England.

At 30 November 2021 we had a total of £122.8m held as liquid assets. £93.7m was available on-call with the Bank of England and the remainder sat in cash, CDs and FRNs.

Interest rate risk:

Interest rate risk arises from either a mismatch between the interest rate characteristics or the maturity profiles of assets and liabilities. The Board-approved Treasury Policy includes set limits for assets and liabilities on different interest rate bases. Where possible we use natural hedging between our fixed-rate mortgages and fixed-rate savings bonds.

We also use interest rate swaps to manage interest rate risk within our Balance Sheet. Further details can be found in note 28 of the Accounts.

Wholesale credit risk:

Wholesale credit risk is the risk of default on assets held to mitigate liquidity risk (on-call accounts, CDs and FRNs). We manage the risk of investing these liquid assets by having strict criteria for accepting counterparties to invest in and absolute limits for these investments with each counterparty. These criteria and limits are stated in our Board-approved Liquidity Policy, and include a requirement for counterparties to have a Fitch rating of A- or higher (except building societies where management may use their specialist knowledge). We review our approved counterparty list and investments made at the Assets and Liabilities Committee.

Retail credit risk:

This risk materialises when a loss is incurred through non-repayment of mortgage lending and is mitigated through our Board-approved Lending Policy, which shows our risk appetite for our lending and includes clear guidelines for mandate levels and lending. We also focus on supporting borrowers who may be having payment difficulties to help mitigate any potential loss and assist the borrowers in returning to a normal repayment pattern.

Where we consider the potential for a loss we make a provision for this in accordance with our policies.

Operational risk:

Operational risk is the risk of loss through inadequate or failed internal processes or systems, including human error or external events.

Operational risk events and near misses are captured and root cause analysis is undertaken to identify and mitigate further risk events. We believe our membership can only be served by having committed, knowledgeable staff, with the ability and authority to meet the requirements and

The Directors of Suffolk Building Society pictured left to right. Back row: Ian Brighton, Elaine Lenc, Paul Johnson, Steve Reid, Fiona Ryder. Front row: Sian Hill, Alan Harris, Richard Norrington, Steve Liddell. Full Bios can be found on our website.

expectations of our members. As such we encourage all staff to undertake personal development and advancement, and we recognise and reward their achievements, creating a sense of pride in serving our membership, and in providing total customer satisfaction.

The Society has performed a self-assessment of its operational resilience and will do so annually to ensure it can continue to deliver its critical services to members under a range of different "threats".

Conduct risk:

Conduct risk arises when a firm's behaviour results in inappropriate or poor outcomes for customers. Our culture is based upon ensuring that each of our members has a right to expect that his or her relationship with us will be conducted in a fair and consistent manner. We recognise our members as the owners of the Society with individual requirements and expectations, and this approach is demonstrated within our conduct risk framework. We design products with target markets in mind.

Financial crime, compliance, and legal risk:

There is an overarching "regulatory risk" that the Society breaches a regulatory requirement. As a result, we have policies and procedures in place to ensure compliance with the regulations that affect our business. The volume and complexity of compliance with these regulatory issues may impact the Society's ability to compete and grow. The Board will continue to monitor regulatory changes to ensure that the Society continues to meet all of its regulatory requirements.

Internal Audit

The Society's internal auditors provide independent and objective assurance that there are appropriate systems and controls in place and that they are effectively applied. The Society outsources the Internal Audit function to Deloitte LLP. The Directors consider that this is beneficial to the Society because it means it is able to benefit from a wide range of expertise and resources. The Society considers that the Internal Audit function is adequately resourced and sufficiently independent.

Defined benefit pension scheme

The Society has an ongoing commitment to fund the defined benefit pension scheme. This scheme was closed to new members in 2001 and future accruals in 2006. Further details are given in Note 9 to the Accounts.

Supplier payment policy

Our policy is to pay invoices on receipt of the completed provision or service, unless staged payments are agreed in advance. We operate within agreed payment terms with our suppliers.

At 30 November 2021 we had an average of 13 days' purchases outstanding in trade creditors (2020: 14 days).

Going concern

The Board regularly engages in the forward planning of the business to ensure we meet the liquidity, capital, lending and retail savings balances defined in our corporate strategy and annual plan. Board members also consider our liquidity and capital requirements in further detail within our capital and liquidity adequacy assessments; these include the results of placing both requirements under significant stress scenarios. As a result of these considerations the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the Accounts continue to be prepared on a going concern basis.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of BDO LLP as auditor is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors.

Alan Harris
Chairman

3 February 2022

Corporate Governance Report.

The UK Corporate Governance Code (the Code) was revised in 2018. The Code sets out a number of principles that emphasise the value of good corporate governance to an organisation's long-term sustainable success. It is aimed at listed companies and therefore the Society is not specifically required to comply. However, the Society is committed to maintaining best practice in corporate governance. This report explains the actions that the Society has taken under each of the Code principles. The Code principles are provided in italicised text.

Board leadership and 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 of Directors' focus is to ensure the long-term sustainability of the Society for the good of our members. We do this by setting the strategy to meet the needs of our members, remain competitive and deliver our services appropriately, with a profit, to help build our capital over the long term. The Board formulates the strategy, reviews business performance, oversees the identification and management of risks and adherence to laws and regulations, and ensures that the required controls are in place and aligned to our strategy. The results achieved by the Society over recent years are a testament to the Board's effectiveness.

In 2021 the Board of Directors met 10 times with one and a half additional days dedicated to strategy. These meetings have taken place both virtually and in person throughout the year. Board meetings have a formal schedule with papers circulated in a timely manner to ensure Board members can perform their duties effectively. Minutes record details of Board, Board Committee and Management meetings. During 2021, the Board agreed to a new Society mission statement (which is explained in more detail in the Chief Executive's report) to ensure that it remains aligned to its members and wider Society.

B. *The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned.*

All Directors must act with integrity, lead by example and promote the desired culture.

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.

During the year, as part of the Society's name change and rebrand, the Board debated and adopted new brand values for the Society and a new mission statement. The Board reviews a cultural dashboard which provides key performance indicators to monitor the Society's culture. Culture is also independently assessed by Internal Audit as part of its annual audit.

As part of the Senior Managers Regime, Directors are required to provide relevant information to enable the Society to certify annually that they remain fit and proper to continue in the role. During the year, there have been no conduct breaches reported by the Society.

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 operates an Enterprise Risk Management Framework (ERMF). There are four committees that report directly into the Board: the Board Risk and Compliance Committee and the Audit Committee which meet at least quarterly; the Remuneration Committee and Chairman's and Nominations Committee, both of which meet at least twice a year. In addition, the Society has an Executive Risk Committee that is part of the Society's second line of defence and reports into the Board Risk and Compliance Committee. There are three first line management committees; Assets and Liabilities Committee, Retail Credit Risk Committee and Operational and Conduct Risk Committee, all of which meet monthly. The Terms of Reference for committees can be found on the Society's website or are available from the Society's Secretary on request.

Board Committees

Board Risk and Compliance Committee

The role of the Committee is to act as a second line of defence to the Society's risk management framework. The Committee assists the Board in fulfilling its oversight responsibilities by receiving regular reports from the Executive Risk Committee which enable it to assess the risks involved in the Society's business (including risks that could threaten its business model, future performance, solvency or liquidity) and to consider the principal risks identified by Management and if they are appropriate. It reviews the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The Committee is responsible for ensuring the Society complies with the Board's risk appetite and also reviews the Society's future risk strategy for economic, capital, liquidity, reputational and operational risk profiles. The Committee uses a variety of internal and external sources to make these assessments.

Audit Committee

The purpose of the Committee is to oversee the Society's financial reporting arrangements, the effectiveness of its internal controls, and the Internal and External Audit processes. The Committee approves matters and reports to the Board on its activities or makes recommendations where appropriate. Minutes of the meetings are circulated to the Board of Directors, along with a verbal report from the Chairman of the Audit Committee highlighting key issues for Board review. The key responsibilities of

the Committee are set out below, together with examples of how it discharges its duties.

At least annually the Committee meets with the External Auditors without the Executive Directors or Senior Management present. The Board is satisfied that the members of the Committee have specialist expertise including recent and relevant financial and risk management expertise.

The key responsibilities of the Audit Committee and details of how they have discharged these responsibilities this year are set out below.

- Financial Reporting, including:
    - Monitoring the integrity of the Society's financial statements and reviewing critical accounting policies, judgements and estimates.
    - Reviewing the appropriateness of the going concern basis for preparing the accounts.
    - Providing advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced, understandable, and include the information necessary for members to assess the Society's position and performance, business model and strategy.

The Committee considered the following significant judgements and estimates. It also reviewed reports from External Auditors and Management. More detail on the principal judgements and accounting estimates is set out in Note 1 of these Accounts.

<u>Allowance for impairment losses on loans and receivables:</u>

Determining the appropriateness of an allowance for impairment losses involves judgement and requires Management to make a number of assumptions around default rates, likely asset recoveries and other factors. The loan loss impairment provisions recorded by the Society as at 30 November 2021 were £729k.

The Committee considered and challenged the provisioning methodology applied by Management, including the results of statistical loan loss models to support the impairment provisions, including the assumptions potentially impacted by the COVID-19 pandemic. The Committee was satisfied that the impairment provisions were appropriate.

<u>Effective Interest Rate (EIR):</u>

The application of the EIR method of accounting requires judgement and the accounting entries involve estimates based on key assumptions, particularly around customer behaviour at the end of the fixed term of their products. The Statement of Financial Position as at 30 November 2021 includes the recognition of a net EIR asset of £175k.

The Committee spent time understanding and challenging the judgements made and the methodology applied by Management in determining the EIR. The Committee agreed that Management's judgements were appropriate in respect of the year ended 30 November 2021.

<u>Hedge accounting:</u>

The Society has implemented hedge accounting in line with FRS 102. The designated macro hedges require matching, hedge effectiveness documentation and testing, and fair valuing of both the hedged instrument and the underlying hedged item. During 2021, as required by the Bank of England, the Society proactively completed its transition from LIBOR denominated swaps to SONIA denominated swaps prior to the deadline date. The transition had an immaterial impact on the accounts. The Committee considered the appropriateness of the hedging arrangements and the fair value processes in respect of hedging instruments and the underlying hedged items. The Committee agreed that hedge accounting had been applied in accordance with FRS 102.

Corporate Governance Report continued.

Retirement benefit obligations:

The Society makes significant judgements in calculating the present value of the retirement benefit obligations. The major assumptions are in respect of mortality, price inflation, discount rates, pension increases. The pension scheme asset recorded at 30 November 2021 was £117k. The Committee considered the assumptions used by reference to advice received from our Actuaries and independent challenge from our External Auditors. The Committee is satisfied that the assumptions used are reasonable.

Accounting Policies:

The Committee examined the Society's accounting policies to ensure they are appropriate and applied consistently. They also confirmed that the policies are in line with applicable Accounting Standards.

Going Concern:

The Committee considered a paper from Management covering the Society's current and projected liquidity and capital position, together with potential risks that could impact the business, as well as consideration of potential stress scenarios. This covered the period to 30 November 2025 in detail with regard to long-term projections contained within the approved Corporate Plan. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

2021 Annual Report:

The Committee considered whether the 2021 Annual Report, when taken as a whole, is fair, balanced and understandable and whether it provides the necessary information for members to assess the Society's position and performance, business model and strategy. The Committee was satisfied that the 2021 Annual Report meets this requirement, and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. Consequently, in February 2022, the Committee recommended the approval of the final 2021 Annual Report to the Board.

External Audit:

In respect of External Audit, the committee is responsible for:

- Reviewing the continued objectivity and independence of External Audit, including the level and appropriateness of non-audit services.
- Considering the appointment, removal, performance and remuneration of the External Audit firm.
- Considering the planning, scope and findings of the annual External Audit, and the receipt of and responses to the Auditor's management letter.

The Audit Committee is also responsible for assessing the effectiveness of the annual audit process, for monitoring the independence and objectivity of the External Auditor and for making recommendations to the Board in relation to the appointment of the External Auditor. Both the Board and the External Auditor have safeguards in place to protect the independence and objectivity of the External Auditor.

During the year, the Committee reviewed the audit plan presented by BDO LLP, and in February 2022 received the auditors' review memorandum prepared at the end of the 2021 audit.

The Society has a policy for the use of External Auditors for non-audit work in line with regulatory requirements. The Society would not consider the appointment of the External Auditor for the provision of other services that might impair independence.

Internal Controls and Risk Management, including:

- Reviewing the adequacy and effectiveness of the Society's internal financial controls and internal control and risk management systems in conjunction with reviewing reports produced by Internal and External Audit.
- Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.

Certain risk management controls are reported through the Board Risk and Compliance Committee rather than the Audit Committee.

The Committee was satisfied that internal controls over year-end financial reporting were appropriately designed and operating effectively.

An annual report is presented to the Board on the effectiveness of the Society's whistleblowing procedures and the Board were satisfied that arrangements are in place to enable individual employees to raise concerns about possible improprieties on a confidential basis.

Internal Audit, including:

- Considering and approving the strategic and annual plans of work.
- Considering finalised internal audit reports and Management's responses to recommendations.
- Considering the appointment, removal, performance and remuneration of the internal audit firm.
- Reviewing the annual conclusion on the Governance, Risk and Control Framework.

Internal Audit is outsourced to Deloitte LLP. During 2020/21 the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively.

In the year ended 30 November 2021, Internal Audit carried out 9 audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including Management responses. The Audit Committee considers the adequacy of Management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

Chairman's and Nominations Committee

The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board and Senior Management. This includes Board and Senior Management succession planning, the appointment of new Directors, election and re-election of Directors and the Chief Executive's annual appraisal. During the year, the Committee approved a new Board diversity and inclusion policy which acknowledges that the Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. The Committee is also responsible for recommending to the Board objectives in relation to the Society's diversity and inclusion aims. During the year, the Society became a signatory to the Women in Finance Charter.

Remuneration Committee

The Committee's main role is to approve the remuneration and incentive schemes for the Society's Executive and Senior Management. The Executive together with the Chairman meet annually to review Non-Executive Director fees, including those of the Deputy Chairman, Senior Independent Director, Chairman of the Audit Committee and Chairman of Board Risk and Compliance Committee.

The Directors' Remuneration Report can be found on page 27.

Management Committees

Executive Risk Committee

The purpose of the Executive Risk Committee is to monitor and oversee the Society's risk profile in accordance with the ERMF and Board risk appetite. The Committee is part of the Society's second line of defence. The Committee supports the Board Risk and Compliance Committee by providing oversight of the adequacy of the Society's application and embedding of ERMF tools and processes.

The Executive Risk Committee reports to the Board Risk and Compliance Committee.

Assets and Liabilities Committee

This Committee manages wholesale credit risk (the risk of default on assets), capital risk, liquidity risk (the risk that the Society will not be able to meet its financial obligations), financial reporting risk and interest rate risk (which arises from a mismatch between interest rate characteristics). The Committee is responsible for ensuring the Society operates within agreed parameters set out in the Board's Liquidity and Financial Risk Management policies. On a monthly basis the Committee reviews the relevant risk appetite profiles and metrics to ensure that the Society is operating within the Board-approved risk appetite. It refers any relevant matters or any recommendations for amendments to risk metrics to the Executive Risk Committee.

Operational and Conduct Risk Committee

The Committee manages operational and conduct risk. Operational risk is the risk of loss through inadequate or failed internal processes or systems, including human error or external events. Conduct Risk is the risk that the Society's behaviour results in inappropriate or poor outcomes for customers. On a monthly basis the Committee reviews the relevant risk appetite profiles and metrics to ensure that the Society is operating within the Board approved risk appetite. It refers any relevant matters or recommendations for amendments to risk metrics to the Executive Risk Committee.

Retail Credit Risk Committee

Retail credit risk arises when unexpected losses are incurred through non-repayment of mortgage lending. This Committee is responsible for monitoring the Society's high-level policy on lending and that the Society is operating within the Board-approved risk appetite. This includes ensuring the mortgage assets stay within agreed Board-approved levels, including reference to the PRA's Specialist Sourcebook for Building Societies. The Committee reviews the Society's Lending Policy Statement, ensuring this aligns with our risk appetite, and recommends changes to the policy to the Board for approval. It refers any relevant matters or any recommendations for amendments to risk metrics to the Executive Risk Committee.

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.*

The Society does not have shareholders in the same way as a listed company; as a mutual society our members are our shareholders. The importance of listening to and engaging with members in the Society's activities is an important part of our culture. The Society is committed to regular dialogue with members through frequent newsletters, social media and events such as the AGM. During the year, the Society has adopted a new tool (Smart Money People) in order for it to capture and analyse member feedback. Members visiting branches and the Society's intermediary customers are invited to leave feedback via an online survey. The results of these surveys have been presented to the Board for review. The purpose of this dialogue with members is to understand, and better serve, their needs.

Members were unable to physically attend the Society's AGM in 2021 due to COVID-19 restrictions but were invited to submit questions to the Board in advance. These questions and the Board's response were posted on the Society's website and individually communicated to the member.

Corporate Governance Report continued.

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

Employee 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 via a central repository and the Human Resources team are available to provide support.

The Society utilises an anonymous online survey called Engagement Multiplier that measures employee engagement. These surveys are conducted regularly, and the results are presented to the Board. A Management action plan is prepared as a result of the survey responses to progress any areas for improvement. Engagement Multiplier also provides employees with the ability to raise any issue or question anonymously at any time.

During the year many of our staff continued to work from home, although we continued to keep our branches open. Our Management Team successfully introduced new ways of engaging with their teams and this resulted in our engagement scores remaining high.

Employee wellbeing remains a key focus for the Society. The Society has provided support to employees in several ways, including access to an Employee Assistance Programme which offers confidential counselling and advice on a wide range of work and personal issues.

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.*

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.*

We have separate roles for Chairman and Chief Executive and these are held by different people. Each role has its own job description approved by the Board. No individual has autonomous powers of decision making. The Chairman is appointed by the Board annually.

Below is a summary of each role:

Chairman

- **Leadership of the Board, setting the tone of organisational culture and values**
- **Ensuring the Board is effective in its duties**
- **Setting and monitoring the strategic direction and risk appetite**
- **Ensuring long term sustainability of the Society**
- **Development and evaluation of Board Directors**
- **Leading open and honest debate and encouraging challenge in Board meetings**
- **Liaising with regulators as appropriate**

Alan Harris is the Society's Chairman.

Chief Executive

- **Implementation of the Board strategies and policies with support of the Executive Team**
- **Ongoing management of the Society guided by risk management**
- **Implementing and monitoring processes, people and systems to ensure effective delivery of corporate plans and budgets**
- **Developing an effective working relationship with the Chairman and Board of Directors**
- **Developing positive relationships with regulators, media, trade organisations, and other building societies to promote the Society and lobby on key issues in the corporate strategy**

Richard Norrington is the Society's Chief Executive.

Role of the Deputy Chairman

Steve Reid is the Society's Deputy Chairman. The Deputy Chairman acts as a sounding board for the Chairman and with the Senior Independent Director undertakes the Chairman's annual appraisal. They also stand in for the Chairman in the event that they are unable to attend a meeting or perform their duties.

Role of the Senior Independent Director

Fiona Ryder is the Society's Senior Independent Director. The Senior Independent Director is available for members to refer issues to that they have not been able to resolve via the Chairman, Chief Executive or other Executive Directors, or for matters where it is not appropriate to raise these issues directly with these Directors. The Senior Independent Director also assists the Deputy Chairman in performing the Chairman's appraisal. Fiona Ryder is also the Society's Whistleblowing Champion and provides an independent point of contact for members of staff who may wish to raise issues.

Role of the Executive Team

The Executive Team works with the Chief Executive and Board to ensure the effective implementation of strategies and policies within agreed budgets and time frames. It holds a leadership role within the business, acting to ensure the correct culture is developed and that the relevant resources, people and systems are utilised efficiently and towards the aims of the corporate strategy and policies set by the Board. It is also responsible for the development of employees, delivering consistent high quality customer service standards, implementation of effective systems within the business and reporting and tracking progress towards our key performance indicators and key results indicators. The Executive Team is also responsible for designing, operating and monitoring risk management systems and controls.

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.*

The Non-Executive Directors of the Society are drawn from a wide range of backgrounds to ensure that the Board has the appropriate skills, knowledge and experience to provide a robust level of challenge and debate. The role requires an understanding of the risks in business, commercial leadership within a framework of prudent and effective risk management controls, and the ability to monitor performance and resources whilst providing support to the Executive in developing the Society. The Society has a succession plan in place for all Non-Executive Director positions. Directors are informed of the time commitment in their letter of appointment. The Chairman's and Nominations 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 process in place for approving new requests to take up roles elsewhere.

The Society has a process to evaluate the performance and effectiveness of individual Non-Executive Directors. This appraisal process includes a 360-degree questionnaire and feedback from all the Non-Executive Directors. The Chairman is evaluated by the Deputy Chairman with assistance from the Senior Independent Director. The Chief Executive evaluates the Chief Financial Officer and the Chief Operating Officer as a member of the Executive Team. The performance of the Chief Executive is assessed by the Chairman and the Deputy Chairman and discussed at the Chairman's and Nominations Committee. In 2021, all members of the Executive Team had a 360-degree questionnaire completed as part of their appraisal.

Corporate Governance Report continued.

Below is a table setting out Director attendance at the Society's meetings for the financial year.

Name/Title	Board Meetings	Audit Committee	Board Risk and Compliance Committee	Remuneration Committee	Chairman's and Nominations Committee
Alan Harris Chairman	10 (10)*	4(5) Δ	4(4) Δ	4(4)	3(3)
Sian Hill Non-Executive Director	10(10)	5(5)	4(4)	–	–
Steve Reid Non-Executive Director	10 (10)	–	4(4)*	4(4)	3(3)
Steve Liddell Non-Executive Director	10(10)	5(5)*	4(4)	4(4)	3(3)
Fiona Ryder Non-Executive Director	9(10)	3(5)	4(4)	–	–
Elaine Lenc Non-Executive Director	10(10)	–	4(4)	4(4)*	–
Richard Norrington Chief Executive Officer	10(10)	–	–	–	3(3)
Ian Brighton Chief Operating Officer	10(10)	–	–	–	–
Paul Johnson Chief Financial Officer	10(10)	–	–	–	–

– not a member of the Committee

* Denotes Chairman of the Committee.

Δ The Chairman attended these meetings as an observer only.

It should also be noted that in addition to attendance at the above meetings both Executive and Non-Executive Directors have been invited on occasion to attend Committees of which they are not 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 Society continuously improves management information to assist its Committees in discharging their terms of reference, and each Committee annually conducts an internal effectiveness review. Internal Audit reviews the adequacy of the information provided to the Board.

The Society provides a formal induction for new Directors. 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 and Society Secretary ensure that Non-Executive Directors are provided with internal briefings and 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 Society Secretary provides support on corporate governance matters and individual members of the Board have access to independent advice if required.

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 Society makes Non-Executive Director appointments on merit, based on the specific skills and experience required under the succession plan. The Chairman's and Nominations Committee meet as necessary to oversee the Board succession plan. The Society has appointed an independent executive search agency to identify and shortlist candidates for positions on the Board. This agency follows a methodical process for searching and shortlisting candidates to conduct a broad search of the marketplace. The Chairman's and Nominations Committee lead the recruitment process, although the Board as a whole makes the final decision. There were no appointments to the Board during 2021.

All Directors must meet the tests of fitness and propriety designed by the Financial Conduct Authority and Prudential Regulation Authority, and all Directors are required to be notified to the regulators. All Directors undergo basic disclosure and barring checks prior to appointment. Senior Managers (including Non-Executive Directors) with responsibilities for specific areas of business allocated to them are required to be pre-approved by the Regulator.

The Society is committed to diversity and currently has a 33% (2020: 33%) female representation on the whole Board. This is therefore above the recommendations of the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation. The Society has set an aspirational target of 40% female representation as part of its commitment to the Women in Finance Charter.

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.*

As at 30 November 2021 the Board consisted of six Non-Executive Directors (including the Chairman) and three Executive Directors, providing a balance of skills and experience appropriate for the requirements of the Society. The member mix of the Board and Committees is reviewed annually by the Chairman's and Nominations Committee to ensure that appropriate expertise and skills are maintained.

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. It does however 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. The current Chair, Alan Harris, has been a Non-Executive Director for more than nine years, although he has only held the position of Chair since 2017. In view of the length of tenure of the current Chair, the Directors have resolved that Mr Harris will stand for annual re-election at the Society's AGM. The Code recommends annual re-elections for all Directors. However, in the view of the Board, all of the Non-Executive Directors are independent in character and judgement, are free of any relationship or circumstance which could interfere with the exercise of their judgement, bring wide and varied commercial experience

Corporate Governance Report continued.

to Board deliberations and continue to represent the interests of the Society's members. As a result, the Society does not currently put forward all Directors for annual re-election.

The Society's Rules require that one third of its number retire from the Board and stand for re-election. At the AGM Fiona Ryder, Ian Brighton and Alan Harris will retire from the Board and stand for re-election.

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.*

Each Non-Executive Director has an annual performance appraisal carried out by the Chairman. The Chairman's performance appraisal is facilitated through the Deputy Chairman and Senior Independent Director, taking into account the views of all the Directors.

The Non- Executive Directors and Chairman give feedback to the Board on general issues of performance. The last external Board effectiveness review took place in 2018 and noted that the Society was considered to be within the top quartile for board effectiveness. The Society used BP&E Global to conduct the effectiveness review. The Society plans to undertake a further external effectiveness review in 2023.

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 Chief Risk Officer, and Chief of Staff, as well as representatives from the internal and external auditors, attend by invitation. The Chair is not a member but may attend by invitation. The Chair is also an alternate member of the Committee and therefore co-opted into the Committee if required to establish an effective quorum.

The Audit Committee meets four times a year with an additional meeting where the external and internal auditors meet the Committee without the presence of the Executive Directors. Further details about the responsibilities of the Audit Committee and how it discharges those responsibilities are set out under section C above.

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

The responsibilities of the Directors in relation to the preparation of the Society's accounts and the statement that the business is a going concern are contained in the Directors' Report on page 9 and Directors' Responsibilities on page 29.

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 Directors have a responsibility, both under the Building Societies Act 1986 and the Financial Services and Markets Act 2000, to establish and maintain systems of control appropriate to the business. Executive Management is responsible for designing, operating and monitoring risk management systems and controls. The principal risks faced by the Society are set out in the Directors' Report on page 9. Each Board and Management Committee is responsible for the risks and controls within its remit. The Board Risk and Compliance Committee assesses the adequacy of this process on behalf of the Board. Internal Audit provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee.

The Board has reviewed the effectiveness of the ERMF and concluded that the Society has a strong risk management and compliance culture, and that the current framework is effective and appropriate for the size and complexity of the business.

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

The Directors' Remuneration Report on page 27 explains how the Society complies with the Code Principles relating to remuneration.

Alan Harris
Chairman

3 February 2022

Our members are at the heart of everything we do.

We exist to benefit our members – now and for the future.

Directors' Remuneration Report.

The purpose of this Report is to inform members of the Society about our approach on the remuneration of the Executive and Non-Executive Directors. The remuneration of Directors is detailed in Note 6 of the accounts on page 47. All members who are eligible to vote at the Society's Annual General Meeting will have the opportunity to approve the Directors' Remuneration Report, through an ordinary resolution (non-binding). The 2020 Report received a 93.6% positive vote.

This Report explains how the Society considers the principles of the UK Corporate Governance Code relating to remuneration, as far as they are applicable to a mutual organisation of our size. The Society has adopted a Remuneration Policy, which complies with the relevant elements of the FCA's Remuneration Code and the PRA's Remuneration Policy. Directors are designated as "Code Staff" under the Regulator's Remuneration Code due to their material impact on the Society's risk profile.

The Code notes the following in relation to remuneration:

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.*

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

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

All members who are eligible to vote at the Society's Annual General Meeting will have the opportunity to approve the Directors' Remuneration Report, through an ordinary resolution (non-binding).

Our Approach

The Society's overall approach to remuneration is a key part of the Society's people strategy and governance. Decisions relating to basic and performance-related pay are always intended to align with our commitment to the long-term business sustainability, values and objectives, and culture of our Society. In addition, any decisions relating to remuneration comply with the aims of the FCA remuneration Code. These aims can be summarised as seeking to:

- ensure greater alignment between risk and individual reward
- discourage excessive risk taking and short-termism, supported by effective risk management
- encourage strong environmental, social and governance outcomes
- support positive behaviours and a strong and appropriate conduct culture, consistent with the Society's purpose, values and strategy.

The Society's remuneration policy and practices are overseen by the Society's Remuneration Committee. The role of the Committee (under the delegated authority of the Board) is to make recommendations on the general remuneration policy of the Society and specifically on the remuneration of the Board and Executive Team. Membership of the Committee is solely comprised of Non-Executive Directors, all of whom are also members of the Society. Other individuals, such as the Chief Executive and Chief of Staff, may be invited to attend for all or part of the meeting as required. Reports and minutes of the Committee's meetings are circulated to all members of the Committee, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

The Committee ensures that remuneration is in line with the Society's values, corporate objectives, and performance. In addition, the Board is updated on a regular basis on aspects relating to culture at the Society including consideration of internal or external changes that may have a significant impact on our team members or culture.

2021 Pay Decision

Whilst determining the approach to remuneration throughout 2021, the Committee continued to be mindful of the performance of the Society and the individual responsibilities of Directors, and the pay and employment conditions across our workforce and externally. During 2021, changes were made to the organisational design of the Society which increased the overall head count throughout the year. The Committee were mindful that the Society must continue to compete to attract and retain team members against other employers in both the local area and now, with the increase of remote working, further afield. In addition, the Committee continued to consider the potential impact of the COVID-19 crisis on the Society, our employees, the wider recruitment market and the economy. The Society pays at least the Real Living Wage to all employees including Saturday employees and apprentices. The salary ratio between our highest paid permanent member of staff and our lowest paid regular permanent member of staff is 9:1.

The Society awarded a 1.5% pay increase to all staff in June 2021. Other salary adjustments were made for career progression or significant changes in responsibilities. Executive Directors were subject to these same terms.

Results at the end of the year indicate that the Society achieved a strong financial performance and we also achieved positive customer experience scores. The Directors' Report provides more information on the performance of the Society during 2021.

Non-Executive Directors:

The level of fees payable to Non-Executive Directors is assessed using information from comparable organisations

Directors' Remuneration Report continued.

(building societies of a similar size). Remuneration comprises a basic fee with a supplementary payment for holding the position of Chairman of a Committee, Deputy Chairman or Senior Independent Director. This fee reflects the additional responsibilities and time commitments of these positions. Fees for Non-Executive Directors are not pensionable and Non-Executive Directors do not take part in any incentive scheme or receive any other benefits. Non-Executive Directors do not have employment contracts with the Society.

Annually the Executive Team together with the Chairman are responsible for setting the Non-Executive Directors' fees. The Board, with the exception of the Chairman, agrees the Chairman's fee.

Executive Directors:

The remuneration of Executive Directors reflects their expertise, responsibilities and roles within the Society. The Executive Directors' benefit package is designed to motivate decision making in the long-term interests of the Society and members as a whole. This year it comprised basic salary, participation in a three-year performance-related pay scheme and various benefits. Further details of these are set out below. The Society has no share option scheme and none of the Executive Directors has any beneficial interest in, or any rights to subscribe to, any instruments, or shares in or debentures of, any connected undertaking of the Society.

Basic salary:

Salaries are reviewed by benchmarking against jobs carrying similar responsibilities, from external salary benchmarking data from the building society sector and the financial services sector as a whole, as well as other UK and regional salary data. This encompasses consideration as to the responsibility and complexity of the role, market conditions and demands, and the Society's very high-quality standards. In 2020 the Society commissioned an external remuneration package benchmarking exercise to be undertaken by Mercer. The results of this benchmarking are being used to assess the appropriateness of the remuneration package awarded to Executive Directors.

The Society's approach is not to compromise on quality standards, and to seek to secure the best and most appropriate people for any particular role at a rate of remuneration consistent with the Society's financial, business and member objectives.

Three-year performance-related pay scheme:

A performance-related pay scheme (PRP) operated during the year for Executive Directors. This was carefully designed to encourage achievement of targets that maintain the financial strength and integrity of the Society, the embedding of the Society's risk management framework and to recognise performance factors that contributed to the Society's overall business and member objectives. The PRP currently allows a maximum of 20% of salary earned for achievement of all targets set which for 2021 were cost management, capital and member and broker satisfaction metrics and which are subject firstly to meeting defined financial performance and risk management criteria. At least one third of this payment is deferred for up to a three-year period to ensure consistent performance is delivered over the longer term. Next year, the criteria for achievement will include elements related to the Society's progress in relation to diversity and inclusion and progress of its Environmental, Social and Governance (ESG) agenda.

As part of the process, the Remuneration Committee sets targets and assesses whether any payment should be made prior to recommendation for Board approval. Whilst the Society achieved all measures set out within the performance-related pay scheme set for this year, the Remuneration Committee took the decision that the variable award should be reduced from 20% to 15%. This acknowledges the commitment of the Executive Directors but also recognises the economic uncertainty affecting the Society and its members.

Pensions:

The Society makes a contribution of between 17.5% and 20% of salary for Executive Directors' pension arrangements. For Richard Norrington and Paul Johnson this is in the form of a cash equivalent payment. The levels of pension contributions are kept under review by the Remuneration Committee.

Benefits:

Executive Directors receive other taxable benefits including a car allowance, travel and accommodation allowance when on Society business and a private health care scheme, which covers the Directors and their families. The Society does not provide concessionary home loans to Directors.

Contractual terms:

The Executive Directors are employed on open-ended service contracts; they require 12 months' notice to be given by the Society and six months' notice by the individual.

Elaine Lenc
Chairman of the Remuneration Committee
3 February 2022

Statement of Directors' Responsibilities.

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

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare 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 FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 these Annual Accounts, the Directors are required to:

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

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 the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of Annual Accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the 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 Suffolk Building Society.

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 30 November 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Suffolk Building Society (the 'Society') for the year ended 30 November 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Members' Interests, the Statement of Cash Flows and notes to the Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 9 July 2020 to audit the financial statements for the year ended 30 November 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 30 November 2020 to 30 November 2021. We remain 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 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 prohibited by that standard were not provided to the Society.

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:

- Assessing the Director's assessment of going concern including supporting financial forecasts through review of key ratios such as probability, net assets, capital and liquidity for significant deterioration, indicating issues related to going concern
- Reviewing the Internal Capital Adequacy Assessment Process document (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and regulatory capital and liquidity requirements
- Challenging the Directors' assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress testing scenarios by sensitising and comparing the macroeconomic assumptions to the Bank of England fan charts
- Assessing how management have factored in key external factors expected to impact the Society such as the Covid-19 pandemic and possible ongoing economic impact, checking these had been appropriately considered as part of the Directors' going concern assessment.

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.

Overview

Key audit matters	2021 Revenue Recognition ("EIR") Impairment losses on loans and advances (excluding life time mortgages)	2020 Revenue Recognition ("EIR") Impairment losses on loans and advances (excluding life time mortgages)
Materiality	£403,000 (2020: £366,000) based on 1% (2020: 1%) of Net assets/ Tier 1 Capital	

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give risk to a material misstatement.

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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		**How the scope of our audit addressed the key audit matter**
Revenue Recognition ("EIR") As disclosed in Note 1.2 and explained in Note 1.14 (critical estimates and judgements) the Society's mortgage interest income is recognised using an effective interest rate ("EIR") method.	This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is required to determine the expected cash flows for the Society's loans and advances within these models, in particular the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Errors within the EIR models themselves or bias in key assumptions applied could result in the material misstatement of revenue. Revenue recognition is therefore considered to be a significant risk area.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of the accounting framework. This included assessment of the types of fees being spread within the effective interest rate model versus the requirements of the applicable financial reporting standard. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR models by agreeing the samples back to the loan management system or source documents. We challenged management's assessment relating to loan behavioural life run-off curves which were based on the Society's historical data and also considered the trends in more recent customer behaviour. We reviewed the relevant interest income and effective interest rate disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the assumptions included in the EIR models are unreasonable taking into consideration the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

Independent auditor's report to the members of Suffolk Building Society continued.

Impairment losses on loans and advances (excluding life time mortgages) As disclosed in Note 16 and explained in Note 1.14 (critical estimates and judgements), the Society holds £728K of impairment provisions at year-end (2020: £555K).	The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of IAS 39, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans. Estimating an appropriate loan loss provision requires significant management judgement in determining the value and timing of future cash flows and has therefore been identified as a key audit matter.	We obtained an understanding of the design and implementation of key controls in the impairment provisioning process and tested the operating effectiveness of the loan management system control that identifies loans in arrears. We assessed the specific and collective provision methodology compared to the requirements of the applicable accounting standard. We challenged the appropriateness of the key assumptions within the model such as impairment triggers, forced sales discount and probability of default through a combination of benchmarking, sensitivity analysis and agreeing significant inputs to external data sources where applicable. We tested the key model for completeness and accuracy of inputs by agreeing them back on a sample basis to underlying source data. We reconciled the loan balances in the models to the loan management system to test whether the relevant loan populations were being considered for impairment. We assessed whether the spreadsheet model performs the impairment calculations as designed, by testing the integrity of the model calculations. We assessed the appropriateness of management's COVID – 19 overlay through assessing the rationale for the impairment charge, compared to our industry knowledge and through benchmarking. We also undertook sensitivity analysis over the key assumptions to determine whether the overall adjustment is reasonable. We reviewed the impairment and sensitivity analysis disclosures made by management to ensure compliance with the requirements of the applicable accounting standards and agreed the disclosures to supporting evidence. **Key observations:** We have not identified any indicators that the provision for loans and advances to customers is unreasonably estimated in consideration of the key assumptions and judgements made.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	2021 **£**	**2020** **£**
Materiality	403,000	366,000
Basis for determining materiality	1% of Net assets	1% of Tier 1 Capital.
Rationale for the benchmark applied	We determined that net assets as a proxy for Tier 1 capital was the most appropriate benchmark as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	We determined that Tier 1 capital was the most appropriate benchmark as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.
Performance materiality	262,000	238,000
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Society's overall control environment and expected total value of known and likely misstatements, based on past experience, our judgment was that overall performance materiality for the Society should be 65% of materiality.	On the basis of our risk assessment together with our assessment of the Society's overall control environment, our judgment was that overall performance materiality for the Society should be 65% of materiality.

Independent auditor's report to the members of Suffolk Building Society continued.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £16,000 (2020: £10,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below.

Annual business statement and directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the directors' report have been prepared in accordance with the 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.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.

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

In our opinion the information given in Note 8 for the financial year ended 30 November 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, 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.

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.

Extent to which the audit was 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:

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation, tax legislation.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiry with the management and the Audit Committee, review of the reporting to the Directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and in relation to accounting estimates such as the EIR and loan loss provisioning.

Our procedures included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management and those charged with governance about their own identification and assessment of the risks of irregularities, including fraud;
- 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 correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- in addressing the risk of fraud in accounting estimates, the procedures performed in the key audit matters section of our report assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- we also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

DocuSigned by:
D Taylor

Daniel Taylor
(Senior Statutory Auditor)

For and on behalf of
BDO LLP,
Statutory Auditor

London

3 February 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income.

FOR THE YEAR ENDED 30 NOVEMBER 2021

	Notes	**2021 £000**	2020 £000
Interest receivable and similar income	2	**17,480**	17,239
Interest payable and similar charges	3	**(3,986)**	(5,228)
Net interest income		**13,494**	12,011
Defined benefit pension Income/(Expense)	9	**2**	(1)
Fees and commissions receivable		**228**	200
Fees and commissions payable		**(155)**	(140)
Gains on financial instruments at fair value	4	**371**	10
Net profit on financial operations	8	**13,940**	12,080
Other operating income		**11**	12
Total income		**13,951**	12,092
Administrative expenses	5	**(10,456)**	(9,534)
Depreciation and amortisation	17, 18	**(353)**	(362)
Other operating charges		**(18)**	(37)
Operating profit before impairment allowance and provisions		**3,124**	2,159
Impairment charge on loans and advances to customers	16	**(187)**	(244)
Operating profit and profit before tax		**2,937**	1,915
Tax on profit on ordinary activities	10	**(809)**	(327)
Profit for the financial year		**2,128**	1,588

Other Comprehensive Income

Actuarial gain/(loss) recognised in the pension scheme	9	**72**	(183)
- Movement in related deferred tax		**(17)**	35
Movement in fair value of debt securities	13	**(4)**	29
- Movement in related deferred tax		**(1)**	(5)
Revaluation gain on freehold property	17	**–**	–
- Movement in related deferred tax		**(68)**	(20)
Total comprehensive income for the year		**2,110**	1,444

The Notes to these Accounts are contained on pages 40 to 71.

Statement of Financial Position.

AS AT 30 NOVEMBER 2021

	Notes	2021 £000	2020 £000
Assets			
Liquid assets			
Cash in hand and balances with Bank of England	11	**93,665**	89,948
Loans and advances to credit institutions	12	**1,865**	2,322
Debt securities	13	**27,233**	27,291
Total liquid assets		**122,763**	119,561
Derivative financial instruments	14	**2,641**	40
Loans and advances to customers			
Loans fully secured on residential property	15	**614,726**	567,637
Loans fully secured on land	15	**662**	717
Total loans and advances to customers	15	**615,388**	568,354
Tangible fixed assets	17	**4,397**	4,301
Intangible fixed assets	18	**1,573**	694
Other assets	19	**175**	3,530
Deferred tax asset	10	**23**	50
Prepayments and accrued income	20	**252**	216
Net pension asset	9	**117**	–
Total assets		**747,329**	696,746
Liabilities			
Shares	21	**608,043**	582,019
Amounts owed to credit institutions	22	**55,009**	30,005
Amounts owed to other customers	23	**39,728**	42,285
Derivative financial instruments	14	**340**	3,011
Other liabilities	24	**2,411**	399
Accruals and deferred income	25	**1,403**	1,067
Deferred tax liability	10	**1,121**	639
Net pension liability	9	**–**	157
		708,055	659,582
Reserves			
General reserve		**38,320**	36,112
Revaluation reserve		**934**	1,027
Available-for-sale reserve		**20**	25
Total liabilities and reserves		**747,329**	696,746

The accounting policies and notes on pages 40 to 71 form part of these Accounts.

Approved by the Board of Directors on 3 February 2022.

Alan Harris, Chairman

Richard Norrington, Chief Executive Officer

Paul Johnson, Chief Financial Officer

Statement of Changes in Members' Interests.

FOR THE YEAR ENDED 30 NOVEMBER 2021

	General reserves 2020 £000	Revaluation reserve 2020 £000	Available-for-sale reserve 2020 £000	Total reserves 2020 £000
Balance at 1 December 2019	34,647	1,072	1	35,720
Total comprehensive income for the year				
Profit for the year	1,588	–	–	1,588
Movement in related deferred tax	–	(20)	–	(20)
Other comprehensive income	(148)	–	24	(124)
Transfer between reserves	25	(25)	–	–
	1,465	(45)	24	1,444
Balance at 30 November 2020	36,112	1,027	25	37,164

	General reserves 2021 £000	**Revaluation reserve 2021 £000**	**Available-for-sale reserve 2021 £000**	**Total reserves 2021 £000**
Balance at 1 December 2020	**36,112**	**1,027**	**25**	**37,164**
Total comprehensive income for the year				
Profit for the year	**2,128**	**–**	**–**	**2,128**
Valuation gains on freehold property	**–**	**(68)**	**–**	**(68)**
Other comprehensive income	**55**	**–**	**(5)**	**50**
Transfer between reserves	**25**	**(25)**	**–**	**–**
	2,208	**(93)**	**(5)**	**2,110**
Balance at 30 November 2021	**38,320**	**934**	**20**	**39,274**

The Notes to these Accounts are contained on pages 40 to 71.

Statement of Cash Flows.

FOR THE YEAR ENDED 30 NOVEMBER 2021

	Notes	2021 £000	2020 £000
Cash flows from operating activities			
Profit before tax		**2,937**	1,915
Adjustments for:			
Depreciation and amortisation of fixed assets	17, 18	**353**	362
Impairment losses on loans and advances to customers	16	**174**	244
		3,464	2,521
Changes in operating assets and liabilities			
Changes in fair values of financial instruments at fair value through the Statement of Comprehensive Income	4	**(371)**	(10)
(Increase)/decrease in prepayments and accrued income	20	**(33)**	80
Increase in accruals and deferred income	25	**336**	139
Decrease/(increase) in other assets	19	**3,370**	(2,260)
Decrease in other liabilities	24	**2,012**	103
Net pension scheme payment	9	**(202)**	(118)
(Increase) in loans and advances to customers	15	**(52,128)**	(43,574)
Taxation paid	10	**(400)**	(200)
Movement in shares	21	**26,042**	25,341
Movement in amounts owed to credit institutions and other customers	22, 23	**22,447**	(4,180)
Net cash generated/(used by) operating activities		**1,073**	(24,679)
Cash flow from financing activities			
Movement in:			
Subordinated debt		**–**	(550)
Net cash used in financing activities		**–**	(550)
Cash flows from investing activities			
Purchase of debt securities	13	**(15,000)**	(27,219)
Proceeds on maturity of debt securities	13	**15,051**	27,002
Purchase of tangible fixed assets	17	**(251)**	(40)
Proceeds on disposal of tangible fixed assets	17	**–**	–
Purchase of intangible fixed assets	18	**(1,077)**	(32)
Net cash used by investing activities		**(1,277)**	(289)
Net increase/(decrease) in cash and cash equivalents		**3,260**	(22,997)
Cash and cash equivalents			
At 1 December	11, 12	**92,270**	115,267
Movement in the year		**3,260**	(22,997)
At 30 November	11, 12	**95,530**	92,270

The Notes to these Accounts are contained on pages 40 to 71.

Notes to the Accounts.

FOR THE YEAR ENDED 30 NOVEMBER 2021

General information and basis of preparation

Suffolk Building Society ("the Society") has prepared these Society Annual Accounts 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* (FRS 102) as issued in March 2018. The Society has also chosen to apply the recognition and measurement provisions of IAS 39: *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU). The presentation currency of these Annual Accounts is sterling. All amounts in the Annual Accounts have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Annual Accounts.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the Annual Accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 1.14.

The Directors have prepared these Accounts on a going concern basis as set out in the Directors' Report on pages 9-17.

1.1 Measurement convention

The Annual Accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: freehold land and buildings, derivative financial instruments and financial instruments classified either at fair value through profit or loss (FVTPL) or available-for-sale.

1.2 Interest

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

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the income statement and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- interest on interest rate derivatives.

Fair value changes in derivatives and other financial assets and financial liabilities carried at fair value through profit or loss are presented in gains less losses on other financial instruments at fair value through profit or loss in the statement of comprehensive income.

1.3 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.2).

Other fees and commission income – including account servicing fees – sales commission and other fees are recognised as the related services are performed.

1.4 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

1.5 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Annual Accounts. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the date of the Statement of Financial Position. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.6 Financial instruments

Recognition

The Society initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities 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 Society 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

Financial assets

The Society classifies its financial assets into one of the following categories:

- Loans and advances

'Loans and advances' 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 advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.2). When the Society chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

Should the Society purchase a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement would be accounted for as a loan or advance, and the underlying asset would not be recognised in the Society's Annual Accounts.

- Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method (see 1.2). Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in Other Comprehensive Income (OCI) and presented in the available for sale reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

- At fair value through profit or loss

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Fair value hedges

On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is/are expected to be highly effective in offsetting the changes in the fair value of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Notes to the Accounts continued.

Financial liabilities

The Society classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

Derecognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

The Society enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

Measurement

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.

Fair value measurement

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

When available, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Society determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer
- default or delinquency by a borrower;
- indications that a borrower or issuer will enter bankruptcy
- the disappearance of an active market for a security
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for loans and advances and available-for-sale investment securities at both a specific asset and a collective level. All individually significant loans and advances and available-for-sale investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and available-for-sale investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and available-for-sale investment securities with similar risk characteristics.


In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- temporary transfer to an interest only mortgage
- reduced monthly payments
- extension of mortgage term
- capitalisation of arrears.

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

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

1.7 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

The Statement of Cash Flows has been prepared using the indirect method.

1.8 Tangible fixed assets

Freehold land and buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of valuation, less any depreciation subsequently accumulated and subsequent impairment. The difference between the amount of depreciation charged in the year on the revalued amount and what would have been charged based on the historical cost is transferred between the Revaluation Reserve and General Reserves each year. Full valuations are completed at least every five years followed by interim valuations three years later. The Directors review the valuations to confirm that they remain appropriate in the intervening years. Increases in valuations of freehold properties are credited to the Revaluation Reserve except to the extent that they reverse previous impairment losses recognised in the Income Statement for the same assets, in which case they are credited to the Income Statement. Decreases in valuations are recognised in the Income Statement except to the extent that they reverse amounts previously credited to the Revaluation Reserve for the same assets, in which case they are recognised in the Revaluation Reserve.

All other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets. For example, land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the

Notes to the Accounts continued.

minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The Society assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 50 years
- branch fitting out costs 10 - 15 years
- equipment, fixtures and vehicles 5 - 10 years
- computer equipment 3 - 5 years

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

1.9 Intangible assets

Software development

Intangible assets relating to the development of the Society's core IT system are stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is charged to the profit or loss on a straight-line basis from the date the assets are available for use over the life of the IT supply contract, or over a shorter period where it is felt that the Society will not draw value from the systems over the life of the contract. The estimated useful life of the IT system is 10 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. In addition, the assets are assessed for impairment in accordance with Section 27 of FRS 102.

1.10 Impairment excluding financial assets, and deferred tax assets

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit") (CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Employee benefits

The Society operates both a defined benefit pension scheme and a defined contribution pension scheme, which are funded by contributions from the Society and its employees. The defined benefit scheme was closed to new members with effect from 1 January 2001 and was made paid-up at 31 March 2006.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Society's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Society determines the net interest income/(expense) on the net defined benefit asset/(liability) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments.


The discount rate is the yield at the date of the Statement of Financial Position on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Society's obligations. A valuation is performed tri-annually by a qualified actuary using the projected unit credit method. The entity recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

1.12 Provisions

A provision is recognised in the Balance Sheet when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.13 Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained within the Statement of Financial Position when substantially all the risks and rewards of ownership remain within the Society, and the liability associated with the cash advanced is included separately within the Statement of Financial Position.

The difference between the sale and repurchase price is accrued over the life of the agreements and recognised within net interest income.

1.14 Critical estimates and judgements

The Society makes critical estimates and judgements in the following areas:

- Impairment losses on loans and advances to customers

The Society reviews its mortgage portfolio at least quarterly to assess impairment. In determining whether an impairment loss should be recorded the Society is required to exercise a degree of judgement. Impairment provisions are calculated using externally provided probability of default statistics, historical arrears experience, and expected cash flows. Estimates are applied to determining prevailing market conditions including interest rates and house prices and the length of time expected to complete the sale of properties in possession. The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

Sensitivity analysis has been carried out on the allowance for impairment by i) altering the percentage of collateral that it is estimated would be recovered in the event of repossession by +/-5%, and ii) altering the probability of default by +/-50%. The combined effect of favourable stresses resulted in an increase in profit for the year of £96k. The combined effect of adverse stresses resulted in a decrease in profit for the year of £294k. The impairment provision would decrease or increase accordingly.

- Effective interest rate (EIR)

The EIR will affect the carrying values of loans and receivables. One of the key components of the EIR is the expected life of the asset. In determining the expected life of mortgage assets the Society uses historical and forecast redemption data as well as management judgement. At least annually the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the Statement of Financial Position and the timings of the recognition of interest income.

Sensitivity analysis has been carried out on the expected life of mortgage assets. Doubling the period from the date of maturity of a mortgage product to the point at which the borrower switches to another mortgage product or redeems their mortgage increased net interest income by £287k. However halving the period decreased net interest income by £150k. The EIR asset increases or decreases accordingly.

- Defined benefit pension scheme

The defined benefit pension scheme exposes the Society to actuarial risks such as investment risk, interest rate risk, inflation risk and longevity risk. In conjunction with its actuaries the Society makes key financial assumptions that are used in the actuarial valuation of the defined benefit pension obligation and therefore changes to these assumptions have an impact on the pension obligation shown within the Statement of Financial Position. The key assumptions include inflation rates, discount rates and life expectancy. See note 9 for further details on these assumptions. A decrease in discount rate of 0.25% per annum would increase liabilities by £305k, an increase in inflation of 0.1% would increase inflation linked liabilities by 2%, or £122k, and a one year increase in life expectancy would increase liabilities by 2%. Each of these sensitivities considers that change in isolation.

02 Interest receivable and similar income

	2021 £000	2020 £000
On loans fully secured on residential property	**18,434**	17,558
On other loans	**36**	42
On debt securities		
Interest and other income	**89**	152
On other liquid assets		
Interest and other income	**97**	315
Net expense on asset related derivatives	**(1,176)**	(828)
	17,480	17,239

03 Interest payable and similar charges

	2021 £000	2020 £000
On shares held by individuals	**3,945**	5,136
On deposits and other borrowings		
Subordinated liabilities (aggregate financing costs)	**–**	7
Term funding scheme interest	**41**	85
	3,986	5,228

04 Net income from other financial instruments at fair value through profit and loss

	2021 £000	2020 £000
Derivatives in designated fair value hedge relationships	**5,254**	(1,963)
Adjustments to hedged items in fair value hedge relationships	**(4,902)**	1,953
Derivatives not in designated fair value hedge relationships	**19**	20
	371	10

05 Administrative expenses

	2021 £000	2020 £000
Staff costs		
Wages and salaries	**4,829**	4,337
Social security costs	**498**	447
Other pension costs	**439**	407
	5,766	5,191
Other administrative expenses	**4,690**	4,343
	10,456	9,534

Amounts receivable by the Society's Auditor and their associates are included within other administrative expenses and comprise fees in respect of:

	2021 £000	2020 £000
Audit of these financial statements	**135**	115
Other services	**18**	13
	153	128

These fees are shown exclusive of VAT. Other services includes an assurance report in connection with the Bank of England's Term Funding Scheme: £17.5k (2020: £13.0k).

06 Remuneration of Directors

	2021 fees £000	2020 fees £000
Non-Executive Directors		
P Elcock (resigned 24 March 2020)	**–**	11.0
A Harris (Chairman)	**47.5**	46.5
S J Reid (Deputy Chairman)	**33.5**	31.9
E Lenc	**31.0**	28.6
S Liddell	**31.0**	30.5
F Ryder	**29.0**	28.5
S Hill (appointed 1 April 2020)*	**29.4**	17.3
	201.4	194.3

Non-Executive Directors also receive reimbursement for travel and subsistence expenses incurred as part of their duties, in line with the Society's expense policy.

Executive Directors	**Salary £000**	**Performance Related Pay Payable now £000**	**Performance Related Pay Deferred £000**	**Benefits £000**	**Sub Total £000**	**Pension Entitlements £000**	**Total £000**
2021							
R Norrington (Chief Executive Officer)	**177.2**	**17.9**	**8.9**	**23.9**	**227.9**	**35.4**	**263.3**
P Johnson (Chief Financial Officer)	**148.1**	**7.5**	**3.7**	**13.2**	**172.5**	**25.9**	**198.4**
I Brighton (Chief Operating Officer)	**116.8**	**11.8**	**5.9**	**10.3**	**144.8**	**20.5**	**165.3**
	442.1	**37.2**	**18.5**	**47.4**	**545.2**	**81.8**	**627.0**

*Remuneration for S Hill includes an element of contractually owed back pay from the 2020 financial year.

R Norrington and P Johnson have elected to receive cash payments in respect of pension entitlements.
Benefits include health care, car allowance and travel allowance.
Total Directors' remuneration amounted to £828.4k (2020: £783.6k).

	Salary £000	Performance Related Pay Payable now £000	Performance Related Pay Deferred £000	Benefits £000	Sub Total £000	Pension Entitlements £000	Total £000
2020							
R Norrington (Chief Executive)	175.9	17.6	8.8	25.3	227.6	35.1	262.7
P Johnson (Chief Financial Officer)	63.5	6.1	3.0	5.7	78.3	11.1	89.4
I Brighton (Chief Operating Officer)	108.5	5.8	11.6	11.4	137.3	18.9	156.2
T Slater (resigned 28 May 2020)	60.4	–	–	10.1	70.5	10.5	81.0
	408.3	29.5	23.4	52.5	513.7	75.6	589.3

07 Employees

	2021 Full time	**2021 Part time**	2020 Full time	2020 Part time
The average number of persons, including Executive Directors, employed during the year was as follows:				
Head office	**75**	**31**	65	29
Branch offices	**16**	**32**	18	31
	91	**63**	83	60

08 Country by Country Reporting

The Capital Requirements (Country by Country Reporting) Regulation 2013 places certain reporting obligations on financial institutions that are within the scope of EU Capital Requirements Directive (CRD IV).

The objective of the country by country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and the locations of its operations. Suffolk Building Society is a UK registered entity.

Name, nature of activities and geographical location: Suffolk Building Society is a deposit taker and lender, not part of a group and operates only in the United Kingdom.

	2021 £000	2020 £000
Turnover	**13,940**	12,080
Profit before tax	**2,937**	1,915
Corporation tax paid	**400**	200
Number of employees on a full time equivalent basis	**See note 7**	See note 7

Turnover is defined as net profit on financial operations.

During the year the Society has participated in the Bank of England Term Funding Scheme. Details of drawings are in note 22.

Corporation tax paid in 2021 is in respect of the results for the year ended 30 November 2020.

09 Pension arrangements

(a) Defined benefit pension scheme

The Society operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 30 November 2018 and is being updated to 30 November 2021 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent actuarial valuation as at 30 November 2018 showed a deficit of £466k. The Society has agreed with the trustees that it will aim to eliminate the deficit over a period of 2 years and 11 months from 1 January 2020 to 30 November 2022 by the payment of £118k in January 2020 and annual contributions of £100k in respect of the deficit. In addition and in accordance with the actuarial valuation, the Society has agreed with the Trustees that it will meet expenses of the Scheme and levies to the Pension Protection Fund.

	2021 £000	2020 £000
Present values of defined benefit obligation, fair value of assets and defined benefit asset/(liability)		
Fair value of plan assets	**6,214**	6,735
Present value of defined benefit scheme obligation	**(6,097)**	(6,892)
Surplus/(deficit) in the plan	**117**	(157)
Defined benefit scheme asset/(liability) to be recognised	**117**	(157)
Deferred tax	**(29)**	27
Net defined benefit asset/(liability) to be recognised	**88**	(130)

09 Pension arrangements (continued)

	2021 £000	2020 £000
Reconciliation of opening and closing balances of the defined benefit obligation		
Defined benefit obligation at the start of the period	**6,892**	6,276
Interest expense	**95**	124
Actuarial losses	**306**	684
Benefits paid and transfers out	**(1,196)**	(192)
Defined benefit scheme obligation at the end of the period	**6,097**	6,892

	2021 £000	2020 £000
Reconciliation of opening and closing balances of the fair value of the plan assets		
Fair value of plan assets at start of period	**6,735**	6,186
Interest income	**97**	123
Actuarial gains	**378**	500
Contributions by the Society	**200**	118
Benefits paid and transfers out	**(1,196)**	(192)
Fair value of plan assets at end of period	**6,214**	6,735

The actual return on the scheme assets over the period ending 30 November 2021 was a gain of £475k (2020: £623k).

	2021 £000	2020 £000
Defined benefit scheme income/(expense) recognised in profit or loss		
Net interest income/(expense)	**2**	(1)
Defined benefit scheme income/(expense) recognised in profit or loss	**2**	(1)

	2021 £000	2020 £000
Defined benefit scheme income/(expense) recognised in other comprehensive income		
Return on scheme assets (excluding amounts included in net interest cost) - gain	**378**	501
Experience (losses)/gains arising on the plan liabilities	**(176)**	30
(Losses) due to effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	**(130)**	(714)
Total gain/(loss) recognised in other comprehensive income	**72**	(183)

09 Pension arrangements (continued)

	2021 £000	2020 £000	2019 £000
Assets			
Growth fund	**3,570**	4,245	2,616
Bonds	**265**	341	2,170
Cash	**129**	26	1,400
Liability driven investments	**2,250**	2,123	–
Total assets	**6,214**	6,735	6,186

None of the fair values of the assets shown above include any of the Society's own financial instruments or any property occupied by, or other assets used by, the Society.

	2021 % per annum	2020 % per annum	2019 % per annum
Assumptions			
Rate of discount	**1.60**	1.55	2.00
Inflation (RPI)	**3.50**	3.00	2.80
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.50**	3.00	2.80
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.30**	2.90	2.75
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	**2.10**	2.00	2.00
Allowance for commutation of pension for cash at retirement	**90% of Post A Day**	90% of Post A Day	90% of Post A Day

The mortality assumptions adopted at 30 November 2021 assume the following life expectancies:

	2021	2020
Male retiring in current year	**22.2**	22.2
Female retiring in current year	**24.0**	23.9
Male retiring in 2046 (2020: 2045)	**23.6**	23.6
Female retiring in 2046 (2020: 2045)	**25.5**	25.4

The best estimate of contributions to be paid by the Society to the scheme for the period commencing 1 December 2021 is £100k.

(b) Defined contribution pension scheme

For staff previously not eligible to join the defined benefit pension scheme and for all qualifying staff from 1 April 2006 the Society operates a defined contribution scheme. The Society additionally funds the cost of life assurance cover for its staff.

Summary of employer's contributions:

Employer's contributions included within the Accounts were fully paid to the scheme and were as follows:	**2021 £000**	2020 £000
Defined contribution scheme	**439**	407

Where applicable, payments into Executive Directors' personal pension plans after 1 April 2006 are included within employer's contributions paid in respect of the defined contribution scheme as stated above and are disclosed in Note 6 of these Financial Statements.

10 Tax on profit on ordinary activities

	2021 £000	2020 £000
UK corporation tax at 19% (2020: 19%)	**385**	266
Adjustment for previous periods	**–**	–
Current tax charge for the year	**385**	266
Deferred tax:		
Origination/reversal of timing differences	**316**	152
Change in rate	**108**	24
Adjustments in respect of previous years	**–**	(115)
Total deferred tax	**424**	61
Tax on profit on ordinary activities	**809**	327

The actual current tax charge for the year differs from that calculated using the standard rate of corporation tax in the United Kingdom. The differences are explained as follows:

	2021 £000	2020 £000
Profit before tax	**2,937**	1,915
Theoretical tax charge at the standard rate of 19% (2020: 19%)	**558**	364
Effects of:		
Expenses not deductible for tax purposes	**131**	54
Utilisation of deferred tax items at differing rates	**12**	–
Deferred tax rate changes	**108**	24
Adjustments in respect of prior years	**–**	(115)
Current tax charge for the year	**809**	327

	2021 £000	2020 £000
Deferred tax assets and liabilities		
Deferred tax assets		
Retirement benefit obligations	**–**	30
Employee benefits	**23**	20
	23	50
Deferred tax liabilities		
Accelerated capital allowances	**(723)**	(350)
Property revaluation	**(308)**	(240)
Business asset rollover relief	**(44)**	(33)
Retirement benefit obligations	**(29)**	–
Available-for-sale assets	**(6)**	(5)
Other	**(11)**	(11)
	(1,121)	(639)
Net deferred tax liability	**(1,098)**	(589)

Deferred tax has previously been calculated at a rate of 19%. Changes in the Finance Act 2021 included that effective from 1 April 2023, the UK corporation tax rate would increase to 25% for companies with profits of over £250k. For accounting purposes, the Society has therefore revalued deferred tax asset and liability exposures at 25%.

The movement in the deferred tax liability pertaining to the property revaluation was an increase of 68k for the year. Of this, 76k pertained to changes in the deferred tax rate, with the impact of timing differences being a reduction to the deferred tax liability of 8k.

11 Cash in hand and balances with the Bank of England

	2021 £000	2020 £000
Balances held with the Bank of England	**93,202**	89,506
Cash in hand	**463**	442
	93,665	89,948

12 Loans and advances to credit institutions

	2021 £000	2020 £000
Repayable on demand	**1,865**	2,322
	1,865	2,322

13 Debt securities

	2021 £000	2020 £000
Certificates of deposit	**15,002**	15,037
Floating rate notes	**12,231**	12,254
	27,233	27,291

Debt securities have remaining maturities from the date of the Statement of Financial Position as follows:

	2021 £000	2020 £000
Accrued interest	**41**	44
In not more than one year	**14,976**	10,025
In more than one year	**12,216**	17,222
	27,233	27,291

All debt securities held are issued by borrowers other than public bodies and are unlisted and transferable.

The Directors of the Society consider that the primary purpose of holding securities is prudential. All transferable securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are therefore classified as available-for-sale financial assets.

Movements during the year of transferable securities classified as available-for-sale financial assets are analysed as follows:

	2021 £000	2020 £000
At 1 December	**27,248**	27,002
Additions	**15,000**	27,219
Disposals	**(15,050)**	(27,002)
Fair value changes through other comprehensive income	**(4)**	29
At 30 November	**27,194**	27,248

14 Derivative financial instruments

	2021		2020	
	Fair value - assets £000	**Fair value - liabilities £000**	Fair value - assets £000	Fair value - liabilities £000
The fair values of derivative financial instruments held at 30 November are set out below.				
Derivatives designated as fair value hedges				
Interest rate swaps	**2,641**	**327**	25	2,964
Derivatives not designated as fair value hedges				
Interest rate swaps	**–**	**13**	15	47
	2,641	**340**	40	3,011

At 30 November 2021 the Society held £2,000k collateral received in respect of derivative contracts (2020: £3,435k collateral pledged).

15 Loans and advances to customers

	2021 £000	2020 £000
Loans fully secured on residential property	**617,777**	565,594
Loans fully secured on land	**662**	717
Fair value adjustment for hedged risk	**(2,322)**	2,598
	616,117	568,909
Less: allowance for impairment (Note 16)	**(729)**	(555)
	615,388	568,354
The maturity of loans and advances to customers from the date of the Statement of Financial Position is as follows:		
In not more than three months	**3,368**	2,839
In more than three months but not more than one year	**6,316**	3,341
In more than one year but not more than five years	**31,413**	33,718
In more than five years	**577,342**	526,413
Fair value adjustment for hedged risk	**(2,322)**	2,598
	616,117	568,909
Less: allowance for impairment (Note 16)	**(729)**	(555)
	615,388	568,354

Repayments of interest and principal due to the Society where the borrower is in arrears under the terms of the loan contract have been included in the above table on the assumption that the arrears are cleared over a thirty-six month period from the date of the Statement of Financial Position. It is the Society's experience, in common with most mortgage lenders, that many loans will be repaid earlier than the contractual maturity date.

Loans and advances to customers include an amount relating to the effective interest rate adjustment of £175k (2020: £258k).

16 Allowance for impairment

	Total £000
Provisions for losses on loans and advances fully secured on residential property have been made as follows and deducted from the appropriate asset values shown in the Statement of Financial Position:	
Individual impairment allowance	
At 1 December 2020	**12**
Amounts written off during the year, net of recoveries	**(13)**
Charge/(reversal) for the year	**165**
At 30 November 2021	**164**
Collective impairment allowance	
At 1 December 2020	**543**
Amounts written off during the year, net of recoveries	**–**
Charge/(reversal) for the year	**22**
At 30 November 2021	**565**
Individual impairment allowance	
At 1 December 2019	19
Amounts written off during the year, net of recoveries	(7)
Charge/(reversal) for the year	–
At 30 November 2020	**12**
Collective impairment allowance	
At 1 December 2019	299
Amounts written off during the year, net of recoveries	–
Charge/(reversal)for the year	244
At 30 November 2020	**543**

In determining the collective provision, Management consider borrowers' ability to service their loans, the value of collateral held, the size of any forced sale discount that could be incurred and the general economic conditions prevailing at the time. In 2019 a collective provision of £200k was established as a result of the uncertainties surrounding Brexit. An additional overlay of £260k was introduced in 2020 to provide against the COVID-19 pandemic and its resultant financial implications, both to our customers and the economy. Since both Brexit and COVID-19 continue to impact the general economic climate, and amidst continuing uncertain economic metrics particularly interest rate and inflation forecasts, the Society has decided to maintain the £460k collective overlay.

As at 30 November 2021 the Society has no impairment provisions against loans fully secured on land.

17 Tangible fixed assets

	Freehold buildings £000	Short leasehold buildings £000	Equipment, fixtures, vehicles £000	Computer equipment £000	**Total £000**
Cost or valuation					
At 1 December 2020	4,152	817	556	628	6,153
Additions during year	75	–	87	89	251
Disposals during year	–	–	(8)	–	(8)
Revaluation	–	–	–	–	–
At 30 November 2021	**4,227**	**817**	**635**	**717**	**6,396**
Depreciation					
Balance at start of year	153	684	468	547	1,852
Charged in year	75	11	24	45	155
Disposals during year	–	–	(8)	–	(8)
Revaluation	–	–	–	–	–
At 30 November 2021	**228**	**695**	**484**	**592**	**1,999**
Net book value					
At 30 November 2021	**3,999**	**122**	**151**	**125**	**4,397**
At 30 November 2020	3,999	133	88	81	4,301

The net book value of land and buildings occupied by the Society for its own activities comprises:	**2021 £000**	2020 £000
Freehold	**3,999**	3,999
Short leasehold	**122**	133
	4,121	4,132

Freehold land and buildings were professionally valued by Akermans, Chartered Surveyors, on an existing use basis as at November 2021. This valuation concluded that the net book value remained appropriate.

In accordance with the Society's accounting policy, the carrying value of £3,999k has been reviewed by the directors at 30 November 2021 and is considered to be appropriate. Under the historical cost basis the carrying amount of Freehold land and buildings would have been £2,695k (2020: £2,745k).

The amount of depreciation charged in the year to 30 November 2021 based on the revalued amount was £75k compared to £50k which would have been charged under the historical cost method. An amount equivalent to the difference has therefore been transferred from the Revaluation Reserve to General Reserves in accordance with accounting policy.

18 Intangible assets

	Software development costs £000
Cost	
At 1 December 2020	2,043
Additions during year	1,077
Disposals during year	–
At 30 November 2021	**3,120**
Amortisation	
At 1 December 2020	1,349
Charged in year	198
At 30 November 2021	**1,547**
Net book value	
At 30 November 2021	**1,573**
At 30 November 2020	694

Intangible assets at 30 November 2021 comprise the costs of investment in the Society's IT infrastructure and cost incurred to date in regard to the new mortgage origination platform necessary to meet the future needs of the society and include £1,046k (2020: £nil) of assets in the course of construction. Amortisation is charged against these assets when they become ready for use by the business over estimated useful lives of between five and ten years.

19 Other assets

	2021 £000	2020 £000
Cash collateral pledged against derivative financial instruments	**–**	3,435
Other	**78**	13
Corporation tax	**97**	82
	175	3,530

20 Prepayments and accrued income

	2021 £000	2020 £000
Prepayments	**252**	216
	252	216

21 Shares

	2021 £000	2020 £000
Held by individuals	**608,061**	582,019
Fair value adjustment for hedged risk	**(18)**	–
	608,043	582,019

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

Accrued interest	**904**	1,240
Repayable on demand	**606,416**	579,988
In not more than three months	**–**	–
In more than three months but not more than one year	**723**	791
	608,043	582,019

22 Amounts owed to credit institutions

	2021 £000	2020 £000
Accrued interest	**9**	5
Bank of England Term Funding Scheme	**55,000**	30,000
	55,009	30,005

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

Accrued interest	**9**	5
In not more than three months	**5,000**	–
In more than three months but not more than one year	**–**	25,000
In more than one year but not more than five years	**50,000**	5,000
In more than five years	**–**	–
	55,009	30,005

The Term Funding Scheme is a Bank of England scheme where funds are lent to firms on a four year term secured by retail mortgages.

At 30 November 2021 the Society had £89m of mortgages pledged as collateral within this scheme.

23 Amounts owed to other customers

	2021 £000	2020 £000

Amounts owed to non-member depositors are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:

Accrued interest	**33**	37
On demand	**39,695**	42,248
	39,728	42,285

24 Other liabilities

	2021 £000	2020 £000
Other taxation and social security costs	**152**	129
Other creditors	**2,259**	270
	2,411	399

25 Accruals and deferred income

	2021 £000	2020 £000
Accruals relating to derivatives	**133**	151
Accruals relating to administrative expenses	**1,208**	857
Other	**62**	59
	1,403	1,067

26 Contingent liabilities and commitments

Leasing commitments
At the date of the Statement of Financial Position, the total of future minimum lease payments under non-cancellable operating leases were as follows:

	Equipment 2021 £000	Land and buildings 2021 £000	Equipment 2020 £000	Land and buildings 2020 £000
Leases which expire:				
In not more than one year	**2**	**160**	2	172
In more than one but not more than five years	**–**	**469**	2	467
After five years	**–**	**671**	–	754
	2	**1,300**	4	1,393

Operating lease payments which were included within administrative expenses during the year ended 30 November 2021 were £180k (2020: £181k).

27 Directors' loans and related party transactions

There were no loans or similar arrangements between Directors and the Society falling due to be reported in the financial statements at either 30 November 2021 or 30 November 2020.

A register is maintained at the Society's Head Office containing details of loans, transactions and arrangements made between the Society and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Head Office for a period of 15 days up to and including the Annual General Meeting.

The Society operates a closed defined benefit pension scheme which constitutes a related party. Details of this pension scheme can be found in Note 9.

28 Financial instruments

A financial instrument is a contract that gives rise to a financial asset or a financial liability. The Society is a retailer of financial instruments, mainly in the form of mortgage and savings products. However, the Society also uses other financial instruments to invest liquid asset balances and raise wholesale funding. In addition, the Society uses derivative financial instruments ('derivatives') to manage the risks arising from its operations.

The financial risks arising from the Society's activities include liquidity, interest rate and credit risk. The Board reviews and agrees policies for managing each of these risks, which include the establishment of the Society's risk appetite, risk limits, clear reporting lines and other controls. Additionally, the Society's Assets and Liabilities Committee (ALCO) monitors the financial risks relating to the financial instruments held as well as funding and liquidity, in line with the Society's prudent policy statements. The Retail Credit Risk Committee will also ensure that the management of retail credit risk is consistent with the credit risk appetite.

The Society does not hold derivatives for trading or speculative purposes but uses them for hedging purposes only in accordance with the Building Societies Act 1986, specifically to limit the interest rate exposure that arises with the provision of fixed rate mortgage and savings products. The Society employs interest rate swap contracts to manage the interest rate risks as summarised below.

Categories of financial instruments
Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. This note to the financial statements describes 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 assets and liabilities by financial classification:

At 30 November 2021

	Loans and receivables £000	Available-for-sale £000	Fair value through profit or loss £000	Total £000
Financial assets				
Cash in hand and balances with the Bank of England	93,665	–	–	93,665
Loans and advances to credit institutions	1,865	–	–	1,865
Debt securities	–	27,233	–	27,233
Derivative financial instruments	–	–	2,641	2,641
Loans and advances to customers	617,710	–	(2,322)	615,388
Other assets	78	–	–	78
Total financial assets	713,318	27,233	319	740,870
Non-financial assets	–	–	–	6,459
Total assets	713,318	27,233	319	747,329

28 Financial instruments (continued)

	Other financial liabilities £000	Fair value through profit and loss £000	Total £000
Financial liabilities			
Shares	**608,061**	**(18)**	**608,043**
Amounts owed to credit institutions	**55,009**	**–**	**55,009**
Amounts owed to other customers	**39,728**	**–**	**39,728**
Derivative financial instruments	**–**	**340**	**340**
Accruals	**1,403**	**–**	**1,403**
Other liabilities	**2,259**	**–**	**2,259**
Total financial liabilities	**706,460**	**322**	**706,782**
Non-financial liabilities	**–**	**–**	**40,547**
Total liabilities	**706,460**	**322**	**747,329**

At 30 November 2020

	Loans and receivables £000	Available-for-sale £000	Fair value through profit or loss £000	Total £000
Financial assets				
Cash in hand and balances with Bank of England	89,948	–	–	89,948
Loans and advances to credit institutions	2,322	–	–	2,322
Debt securities	–	27,291	–	27,291
Derivative financial instruments	–	–	40	40
Loans and advances to customers	565,756	–	2,598	568,354
Other assets	3,448	–	–	3,448
Total financial assets	661,474	27,291	2,638	691,403
Non-financial assets	–	–	–	5,343
Total assets	661,474	27,291	2,638	696,746

	Other financial liabilities £000	Fair value through profit and loss £000	Total £000
Financial liabilities			
Shares	582,019	–	582,019
Amounts owed to credit institutions	30,005	–	30,005
Amounts owed to other customers	42,285	–	42,285
Subordinated liabilities	–	–	–
Pension liability	157	–	157
Derivative financial instruments	–	3,011	3,011
Accruals	1,067	–	1,067
Other liabilities	270	–	270
Total financial liabilities	655,803	3,011	658,814
Non-financial liabilities	–	–	37,932
Total liabilities	655,803	3,011	696,746

28 Financial instruments (continued)

Fair value disclosure

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 (see below).

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.

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. Valuations are based on SONIA yield curves in line with the terms of the underlying instruments. No adjustment is made for credit risk.

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 table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments' fair value:

As at 30 November 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Available-for-sale				
Debt securities (excluding accrued interest)	**27,192**	**–**	**–**	**27,192**
Fair value through profit or loss				
Interest rate swaps	**–**	**2,641**	**–**	**2,641**
	27,192	**2,641**	**–**	**29,833**
Financial liabilities				
Fair value through profit or loss				
Interest rate swaps	**–**	**340**	**–**	**340**
	–	**340**	**–**	**340**

As at 30 November 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities (excluding accrued interest)	27,247	–	–	27,247
Fair value through comprehensive income				
Interest rate swaps	–	40	–	40
	27,247	40	–	27,247
Financial liabilities				
Fair value through comprehensive income				
Interest rate swaps	–	3,011	–	3,011
	–	3,011	–	3,011

Financial assets pledged as collateral
The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 30 November are shown below:

	2021 £000	2020 £000
Loans and advances to customers	**88,593**	65,378

Credit risk

Credit risk is the risk that counterparties will not meet their obligations as they fall due. All loan applications are assessed with reference to the Society's lending policy.

Treasury counterparties are approved and monitored by the Assets and Liabilities Committee.

The Society operates an experienced credit risk function, driven by the need to manage potential and actual risk both currently and in the future. Through this, any variations in risk resulting from market, economic or competitive changes are identified and appropriate controls and strategies are implemented.

The Society's maximum credit risk exposure is detailed in the table below:	**2021** **£000**	2020 £000
Balance held with the Bank of England	**93,202**	89,506
Loans and advances to credit institutions	**1,865**	2,322
Debt securities	**27,233**	27,291
Derivative financial instruments	**2,641**	40
Loans and advances to customers	**617,710**	565,756
Fair value adjustment for hedged risk	**(2,322)**	2,598
Other	**–**	3,435
Total Statement of Financial Position exposure	**740,329**	690,948
Off-balance sheet exposure – mortgage commitments	**38,653**	37,954
	778,982	728,902

Loans and advances to customers

The Society is committed to mitigating risk through all stages of the lending cycle. The Society monitors customer affordability and the loan-to-value (LTV) percentages of all loans at the application stage. Additionally, the Society employs underwriting and fraud detection policies to minimise losses once loans have been approved as well as taking a proactive approach to the monitoring and treatment of impaired loans through the collections and recovery functions.

The Society maintains comprehensive management information on the performance and movements within the various loan portfolios to ensure that credit risk is adequately controlled, and any adverse trends are identified before they impact on performance. Society performance is benchmarked against the industry when appropriate to identify any outlying trends. This management information is distributed throughout the Society and monitored at a Board committee level.

The table below provides further information on the Society's loans and advances to customers by payment due status as at 30 November, and the allowance for impairment held by the Society against those assets. The balances exclude the fair value adjustment for hedged risk and are stated before allowance for impairment losses.

28 Financial instruments (continued)

Credit quality analysis of loans and advances to customers

	2021		2020	
	Loans fully secured on residential property £000	**Loans fully secured on land £000**	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	**605,412**	**662**	554,184	717
Past due but not impaired				
Up to 1 month	**3,225**	–	2,020	–
More than 1 month but less than 3 months	**788**	–	731	–
More than 3 months but less than 6 months	**–**	–	-	–
More than 6 months but less than 12 months	**–**	–	-	–
More than 12 months	**–**	–	-	–
	4,013	–	2,751	–
Individually impaired				
Not past due	**2,517**	–	2,197	–
Up to 1 month	**576**	–	1,058	–
More than 1 month but less than 3 months	**488**	–	574	–
More than 3 months but less than 6 months	**443**	–	1,557	–
More than 6 months but less than 12 months	**1,951**	–	1,166	–
More than 12 months	**2,248**	–	1,875	–
In possession	**129**	–	232	–
	8,352	–	8,659	–
	617,777	**662**	565,594	717
Individual	**164**	–	12	–
Collective	**565**	–	543	–
Total allowance for impairment	**729**	–	555	–

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely, for example, when loans are past due, the account is in forbearance or the property is in possession, or where fraud or negligence has been identified. Further consideration is given in accounting policy note 1.6 to the Accounts.

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year end are shown below. The amounts stated are the most recent valuations adjusted to take account of changes in the Halifax House Price Index published by Lloyds Banking Group Plc.

	2021 £000	2020 £000
Property	**360**	401

The Society's policy is to pursue timely realisation of the collateral in an orderly manner. The Society does not generally use the non-cash collateral for its own operations.

Collateral held and other credit enhancements

The Society holds collateral against its retail credit exposures in the form of residential property. This collateral is valued by adjusting the valuation at inception of the loan for changes in the Halifax House Price Index published by Lloyds Banking Group Plc. Values are updated on a quarterly basis. No allowance is made for the costs of realising the collateral.

The table below sets out the value of collateral held against the loan portfolio (excluding adjustments for impairment, effective interest rate and fair value of hedged mortgages).

	2021 £000	2020 £000
Estimated full value of collateral held	**1,746,635**	1,569,724
Value of collateral limited to the amount of debt outstanding	**618,266**	566,055
Percentage of collateral to Loans and advances to customers	**100%**	100%

In addition to holding residential property as collateral, the Society holds mortgage indemnity insurance where the ratio of the loan at application to the value of the property is more than 80% (2020: 80%).

Loan to value

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance and adjustment for changes in fair value. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	2021 £000	2020 £000
LTV ratio		
Up to 50%	**288,454**	284,892
More than 50% and up to 70%	**125,011**	125,684
More than 70% and up to 90%	**182,792**	146,055
More than 90% and up to 100%	**22,182**	9,680
More than 100%	**–**	–
	618,439	566,311

Forbearance

In certain circumstances the Society uses forbearance measures to assist those borrowers who are experiencing financial difficulty. These measures can take several different forms and in each case an individual assessment is made to ensure forbearance is in the best interests of both the borrower and the Society. It is expected that the borrowers will resume normal payments once they are able. Accounts in forbearance are included in the individual assessment for impairment.

The table below analyses residential mortgages with renegotiated terms as at the year end:

	Number of accounts	**2021 £000**	Number of accounts	2020 £000
Account restructured and arrears capitalised	**2**	**74**	2	77
Temporary transfer to interest only	**14**	**1,204**	17	1,343
Term extension	**3**	**561**	4	150
Payment arrangement in place	**31**	**2,716**	29	2,391
Multiple forbearance actions	**13**	**1,072**	19	1,634
	63	**5,627**	71	5,595

28 Financial instruments (continued)

Liquidity risk
Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are to be settled by delivering cash or another financial asset. The Society's liquidity policy is to maintain sufficient funds in a liquid form at all times to ensure that it can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide protection against any unexpected events that may occur.

Liquidity is monitored daily and reported to the ALCO on a monthly basis. The Society's liquidity policy is designed to provide the Society with the resources to withstand a range of stressed scenarios. A number of appropriate stressed scenarios have been identified as part of the Society's liquidity risk management. The scenarios developed include idiosyncratic, market-wide and combination stress tests, which fulfill the specific requirements of the Prudential Regulation Authority (PRA).

The Society's high quality liquid assets comprise deposits with the Bank of England and investment grade floating rate notes issued by a highly rated Multinational Development Bank. The total drawings under the Term Funding Scheme has increased to £55m (2020: £30m).

At the year end the percentage of total shares and deposit liabilities held in these high quality liquid assets was 15.0% (2020: 15.6%). In addition, the Society also holds deposits with UK banks and portfolios of certificates of deposits (CDs) and time deposits (TDs) with other financial institutions. When taking the bank deposits, CDs and TDs into account, the percentage of total shares and deposit liabilities held in liquid resources was 17.5% (2020: 18.3%).

Maturity analysis for financial assets and financial liabilities
The tables below set out the remaining contractual maturities of the Society's financial assets and financial liabilities. In practice, contractual maturities are not a reflection of actual experience and therefore the information is not representative of the Society's management of liquidity. For example, the contractual term for the majority of the loans and advances to customers range from 10 - 30 years, however borrowers tend to repay ahead of contractual maturity, with the average life of a loan under 7 years. Conversely, customer deposits (for example, shares) repayable on demand are likely to remain for longer on the Statement of Financial position. With regard to the net pension surplus, this has been analysed across time periods in accordance with the payment of the annual contributions agreed with the Trustees to eliminate the deficit.

Contractual maturities of financial assets and liabilities

For the year ended 30 November 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	Non-defined maturity £000	Total £000
Financial assets							
Cash in hand	93,665	–	–	–	–	–	93,665
Loans and advances to credit institutions	1,865	–	–	–	–	–	1,865
Debt securities	–	–	14,976	12,216	–	41	27,233
Derivative financial instruments	–	–	–	2,641	–	–	2,641
Loans and advances to customers	–	3,368	6,316	31,413	577,342	(3,051)	615,388
Other financial assets	–	78	–	–	–	–	78
Total financial assets	95,530	3,446	21,292	46,270	577,342	(3,010)	740,870
Non-financial assets	–	–	–	–	–	6,459	6,459
Total assets	95,530	3,446	21,292	46,270	577,342	3,449	747,329
Financial liabilities							
Shares	606,434	–	723	–	–	886	608,043
Amounts owed to credit institutions	–	5,000	–	50,000	–	9	55,009
Amounts owed to other customers	39,695	–	–	–	–	33	39,728
Derivative financial instruments	–	4	98	235	3	–	340
Accruals	–	1,403	–	–	–	–	1,403
Other liabilities	2,259	–	–	–	–	–	2,376
Total financial liabilities	648,388	6,290	821	50,235	3	928	706,782
Non-financial liabilities and reserves	–	–	–	–	–	40,547	40,547
Total liabilities and reserves	648,388	6,290	821	50,235	3	41,475	747,329

For the year ended 30 November 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	Non-defined maturity £000	Total £000
Financial assets							
Cash in hand	89,948	–	–	–	–	–	89,948
Loans and advances to credit institutions	2,322	–	–	–	–	–	2,322
Debt securities	–	–	10,025	17,222	–	44	27,291
Derivative financial instruments	–	–	–	40	–	–	40
Loans and advances to customers	–	2,839	3,341	33,718	526,413	2,043	568,354
Other financial assets	–	3,448	–	–	–	–	3,448
Total financial assets	92,270	6,287	13,366	50,980	526,413	2,087	691,403
Non-financial assets	–	–	–	–	–	5,343	5,343
Total assets	92,270	6,287	13,366	50,980	526,413	7,430	696,746
Financial liabilities							
Shares	579,988	–	791	–	–	1,240	582,019
Amounts owed to credit institutions	–	–	25,000	5,000	–	5	30,005
Amounts owed to other customers	42,248	–	–	–	–	37	42,285
Pension liability	–	157	–	–	–	–	157
Derivative financial instruments	–	9	86	2,910	6	–	3,011
Accruals	–	1,067	–	–	–	–	1,067
Other liabilities	270	–	–	–	–	–	270
Total financial liabilities	622,506	1,233	25,877	7,910	6	1,282	658,814
Non-financial liabilities and reserves	–	–	–	–	–	37,932	37,932
Total liabilities	622,506	1,233	25,877	7,910	6	39,214	696,746

Non defined maturity items principally comprises of impairment provisions and hedge accounting adjustments.

Grossed up financial liability exposure table

The following is an analysis of the total gross cash flows (including all interest due) payable over the lives of the Society's financial liabilities.

For the year ended 30 November 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**	**Non-defined maturity £000**	**Total £000**
Financial liabilities							
Shares	**606,434**	**499**	**1,878**	**656**	**–**	**886**	**610,353**
Amounts owed to credit institutions	**–**	**5,014**	**38**	**50,135**	**–**	**9**	**55,196**
Amounts owed to other customers	**39,695**	**41**	**126**	**–**	**–**	**33**	**39,895**
Pension liability	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments	**–**	**213**	**539**	**600**	**2**	**–**	**1,354**
Accruals	**–**	**1,403**	**–**	**–**	**–**	**–**	**1,403**
Other liabilities	**2,259**	**–**	**–**	**–**	**–**	**–**	**2,259**
Total financial liabilities	**648,388**	**7,170**	**2,581**	**51,391**	**2**	**928**	**710,460**

28 Financial instruments (continued)

For the year ended 30 November 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	Non-defined maturity £000	Total £000
Financial liabilities							
Shares	579,988	1,021	3,545	1,213	–	1,240	587,007
Amounts owed to credit institutions	–	7	25,020	5,001	–	5	30,033
Amounts owed to other customers	42,248	105	321	–	–	37	42,711
Pension liability	–	157	–	–	–	–	157
Derivative financial instruments	–	335	841	1,804	–	–	2,980
Accruals	–	1,067	–	–	–	–	1,067
Other liabilities	270	–	–	–	–	–	270
Total financial liabilities	622,506	2,692	29,727	8,018	–	1,282	664,225

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. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk. As the Society is not exposed to foreign currencies the primary risk associated with market prices comes from interest rate risk.

The Society is exposed to movements in interest rates and this can have an adverse effect on profit. This exposure may be due to a difference in the timing of when assets and liabilities can reprice to market rates, or to a difference in the basis referenced by interest rates, such as Bank of England base rate and SONIA. The Society manages this exposure continually within approved limits and, where necessary, by using derivative financial instruments.

Interest rate risk

The Society has adopted the 'Matched' approach to interest rate risk, as defined by the PRA, operating within the exemptions permitted within section 9A of the Building Societies Act 1986. The 'Matched' approach aims to use 'standard' hedging instruments to manage the interest rate risks associated with offering fixed rate retail products, as detailed below. 'Standard' instruments include interest rate swaps.

The Society's interest risk management includes a regular review of the products used for hedging purposes by senior management, supported by monthly review by the ALCO and the Board. In addition, interest rate gap and basis risk analysis is performed on a monthly basis and presented to the ALCO and Board for review.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. The analysis below, also an interest rate sensitivity assessment, represents market value movement calculated using a discounted cash flow basis on all of the Society's financial assets and liabilities. The sensitivity analysis is based on immediate 200 basis point parallel shifts in interest rates.

All exposures include investments of the Society's reserves. Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics; say SONIA and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are also monitored closely and regularly reported to the ALCO.

The analysis below summarises the Society's exposure to interest rate risk. The tables present the Society's assets and liabilities by repricing date, along with the derivative financial instruments that are used to reduce the exposure to interest rate risk.

28 Financial instruments (continued)

Interest rate risk at 30 November 2021

	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	Non-interest bearing £000	Total £000
Assets						
Cash in hand and central bank balances	93,658	–	–	–	7	93,665
Loans and advances to credit institutions	1,865	–	–	–	–	1,865
Debt securities	–	14,976	12,216	–	41	27,233
Derivative financial instruments	–	–	–	–	2,641	2,641
Loans and advances to customers	278,138	69,676	270,627	–	(3,053)	615,388
Other assets	–	–	–	–	6,537	6,537
Total assets before derivatives	373,661	84,652	282,843	–	6,173	747,329
Derivatives - Interest rate swaps	243,000	–	–	–	–	243,000
Total assets after derivatives	616,661	84,652	282,843	–	6,173	990,329
Liabilities and reserves						
Shares	443,562	101,200	61,889	506	886	608,043
Amounts owed to credit institutions	55,000	–	–	–	9	55,009
Amounts owed to other customers	39,695	–	–	–	33	39,728
Derivative financial instruments	–	–	–	–	340	340
Other liabilities	–	–	–	–	4,935	4,935
Reserves	–	–	–	–	39,274	39,274
Total liabilities before derivatives	538,257	101,200	61,889	506	45,477	747,329
Derivatives - Interest rate swaps	18,000	35,000	188,000	2,000	–	243,000
Total liabilities after derivatives	556,257	136,200	249,889	2,506	45,477	990,329
Interest rate sensitivity gap	60,404	(51,548)	32,954	(2,506)	39,304	–
Off-balance sheet exposures	(13,694)	222	13,472	–	–	–
Total interest rate sensitivity gap	46,710	(51,326)	46,426	(2,506)	(39,304)	–
Sensitivity to general reserves						
Parallel shift of +2%	(31)	369	(261)	241	–	318
Parallel shift of -2%	31	(369)	261	(241)	–	(318)

28 Financial instruments (continued)

Interest rate risk at 30 November 2020

	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	Non-interest bearing £000	Total £000
Assets						
Cash in hand and balances with central bank	89,942	–	–	–	6	89,948
Loans and advances to credit institutions	2,322	–	–	–	–	2,322
Debt securities	12,226	10,025	4,996	–	44	27,291
Derivative financial instruments	–	–	–	–	40	40
Loans and advances to customers	272,348	74,586	219,377	–	2,043	568,354
Other assets	–	–	–	–	8,791	8,791
Total assets before derivatives	376,838	84,611	224,373	–	10,924	696,746
Derivatives - interest rate swaps	202,000	–	–	–	–	202,000
Total assets after derivatives	578,838	84,611	224,373		10,924	898,746
Liabilities and reserves						
Shares	416,485	79,759	84,535	–	1,240	582,019
Amounts owed to credit institutions	30,000	–	–	–	5	30,005
Amounts owed to other customers	42,248	–	–	–	37	42,285
Derivative financial instruments	–	–	–	–	3,011	3,011
Other liabilities	–	–	–	–	2,398	2,398
Reserves	–	–	–	–	37,028	37,028
Total liabilities before derivatives	488,733	79,759	84,535	–	43,719	696,746
Derivatives - interest rate swaps	10,000	23,000	164,000	5,000	–	202,000
Total liabilities after derivatives	498,733	102,759	248,535	5,000	43,719	898,746
Interest rate sensitivity gap	80,105	(18,148)	(24,162)	(5,000)	(32,795)	–
Off-Balance sheet sensitivity gap	(15,626)	153	15,473	–	–	–
Total interest rate sensitivity gap	64,479	(17,995)	(8,689)	(5,000)	(32,795)	–
Sensitivity to general reserves						
Parallel shift of +2%	(386)	195	(431)	506	–	(116)
Parallel shift of -2%	386	(195)	431	(506)	–	116

Derivatives held for risk management

Fair value hedges of interest rate risk

The Society uses derivatives designated to manage certain risks it faces in accordance with Section 9A of the Building Societies Act 1986. In particular, the Society employs 'fair value hedges' in the form of interest rate swaps to manage the exposure to interest rate risk inherent when providing fixed rate retail products. The interest rate swaps essentially hedge the exposure to changes in the fair values of the fixed products. The Society does not hold derivatives for trading or speculative purposes but uses them for hedging purposes only.

The interest rate swap contracts used to manage the interest rate risks are summarised below:

Activity	Risk	Fair value interest rate hedge
Fixed rate mortgages	Increase in interest rates	Society pays fixed, receives variable
Fixed rate savings	Decrease in interest rates	Society receives fixed, pays variable
Debt securities - fixed rate	Increase in interest rates	Society pays fixed, receives variable

The fair values of derivatives designated as fair value hedges are as follows.

	2021		2020	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
	2,641	**340**	40	3,011

Interest rate swaps

Interest rate swaps are matched to specific issuances of fixed rate retail shares or loans or acquisitions of debt securities. All hedges are supported by comprehensive hedging documentation as per the requirement in FRS 102 with the adoption of IAS 39. The Society utilises the derivative instruments for hedging purposes only and no such instruments are used for trading activity or speculative purposes. Fair value hedges are against SONIA.

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (IBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020.

Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates proposed the Sterling Overnight Index Average (SONIA) as the basis of a replacement for LIBOR. During the year ended 30 November 2021, all new swap contracts entered into referenced Sterling Overnight Indexed Average (SONIA). In addition, the Society had issued a small number of mortgage loans which referenced LIBOR. These were also replaced during the year with equivalent contracts that track the Bank of England base rate. Therefore, at the year end the Society had no assets or liabilities that reference LIBOR either on or off its balance sheet.

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

	2021 £000	2020 £000
Notional value of LIBOR swap contracts used in hedges	**–**	104,000
Notional value of SONIA swap contracts used in hedges	**226,000**	77,000
Total notional value of swap contracts used in hedges held at 30 November	**226,000**	181,000
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	**–**	21,000
Notional value of LIBOR swap contracts used in hedges which mature after 2021	**–**	83,000
	–	104,000

The hedged mortgage assets that are affected by LIBOR reform are shown in the table below (there were no such hedged liabilities).

	2021 £000	2020 £000
Carrying value of mortgages hedged by LIBOR swap contracts	**–**	107,082
Of which:		
Carrying value of mortgages hedged by LIBOR swap contracts which mature before the end of 2021	**–**	21,728
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 2021	**–**	85,354
	–	107,082

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

Capital Structure
The Society's policy is to maintain a strong capital base to secure member, creditor and market confidence and to sustain the Society's plans for the future. Regulatory capital consists of the Society's general reserves, which are the profits of the Society accumulated over the last 172 years, and reserves relating to the revaluation of freehold property and the carrying value of available-for-sale debt securities.

The Society manages its capital requirements through the annual ICAAP (Internal Capital Adequacy Assessment Process). This is carried out in conjunction with the PRA. The ICAAP is closely monitored by the Board and the Board receive regular updates on the amount of capital held and the amount of headroom the Society has over its required level of capital. The required level of capital is set by the PRA through the Society's Total Capital Requirement. This allows the Board to ensure that the quantity and quality of capital held is both sufficient and appropriate to mitigate the risks the Society faces and to safeguard members' interests.

There were no breaches of capital requirements during the year.

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital structure and exposures. The Society's Pillar 3 disclosures can be obtained on our website or by writing to the Society Secretary at our head office.

Regulatory Capital	**2021 £000**	2020 £000
Common equity tier 1 capital		
General reserve	**38,320**	36,112
Revaluation reserve	**934**	1,027
AFS reserve	**20**	25
Intangible assets	**(1,573)**	(694)
Total common equity tier 1 capital	**37,701**	36,470
Tier 2 capital		
Eligible subordinated debt	**–**	–
Collective impairment allowance	**565**	543
Total tier 2 capital	**565**	543
Total capital	**38,266**	37,013

Annual Business Statement

FOR THE YEAR ENDED 30 NOVEMBER 2021

01 Statutory percentages

	2021 %	Statutory limit %
Lending limit	**0.7**	25.0
Funding limit	**13.5**	50.0

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

The statutory limits are as laid down under the Building Societies Act 1986 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 shareholding members.

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

Business assets are defined as total Society assets plus impairment allowance less liquid assets, tangible and intangible fixed assets.

The funding limit represents the proportion of shares and borrowings not in the form of shares held by individuals. Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

02 Other percentages

	2021 %	2020 %
As a percentage of shares and borrowings:		
- Gross capital	**5.59**	5.68
- Free capital	**4.82**	5.00
- Liquid assets	**17.47**	18.27
As a percentage of mean total assets:		
- Profit after tax for the financial year	**0.30**	0.23
- Management expenses	**1.50**	1.45

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

"Gross capital" represents the aggregate of general reserves and subordinated liabilities.

"Free capital" represents the aggregate of gross capital and collective allowances on loans and advances to customers, less tangible and intangible fixed assets.

"Mean total assets" represent the average of total assets as stated in the Statement of Financial Position at 30 November 2021 and 30 November 2020.

"Liquid assets" represent the aggregate of cash in hand, loans and advances to credit institutions, debt securities, treasury bills and other liquid assets.

"Management expenses" represent the aggregate of administrative expenses and depreciation and amortisation.

The Notes to these Accounts are contained on pages 40 to 71.

03 Information relating to Directors at 30 November 2021

Name	Occupation	Date of birth	Date of appointment	Other Directorships
A Harris	Non-Executive Director	22/08/56	01/07/11	Stonebridge International Insurance Ltd Cornerstone International Holdings Ltd The Prince Henry's High School Academy Trust PHHS Trading Company Limited
S Hill	Non-Executive Director	23/02/64	01/04/20	Trustee, Place2Be Trustee of the Ipswich Building Society Pension and Life Assurance Scheme Place2Be Trading Limited Yealand Administration Limited Cordiant Digital Infrastructure Limited
S J K Reid	Non-Executive Director	29/07/63	01/11/16	Wyelands Bank Plc
S A Liddell	Non-Executive Director	05/11/63	30/11/17	Samsung Fire & Marine Insurance Company of Europe Limited Aspen Syndicate Management Limited
F Ryder	Non-Executive Director	05/05/67	25/10/18	TCD Media Limited Trustee of Norwich Film Festival Bonza Music Limited
E Lenc	Non-Executive Director	22/08/59	01/10/19	–
R H B Norrington	Chief Executive Officer	18/09/65	30/11/16	–
I Brighton	Chief Operating Officer	22/09/68	01/05/18	Trustee of the Ipswich Building Society Charitable Foundation
P Johnson	Chief Financial Officer	18/08/68	26/11/20	–

Directors' service contracts
At 30 November 2021 the Executive Directors are employed on open-ended service contracts under which notice periods of one year and six months are required to be given by the Society and Director respectively in circumstances in which the contract is to be terminated.

Correspondence and documents
Correspondence to Directors, jointly or individually, should be addressed "Private and Confidential" and c/o BDO, 55 Baker St, Marylebone, London W1U 7EU.

04 Information relating to other Officers at 30 November 2021

Name	Occupation
W Defoe	Chief Risk Officer
R J Newman	Chief of Staff and Society Secretary
L Gladwell	Chief Commercial Officer

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INVL21 (01/22)