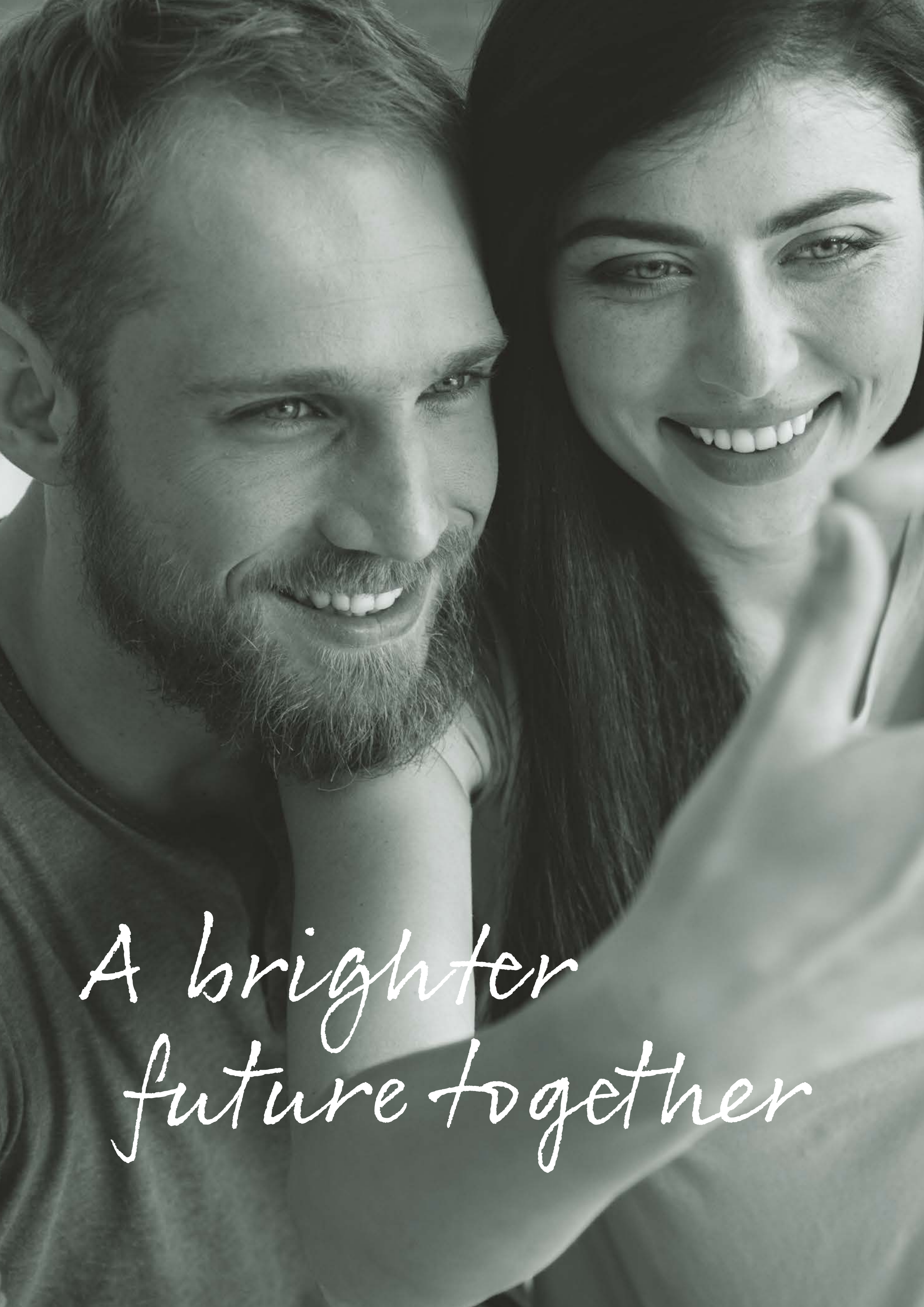
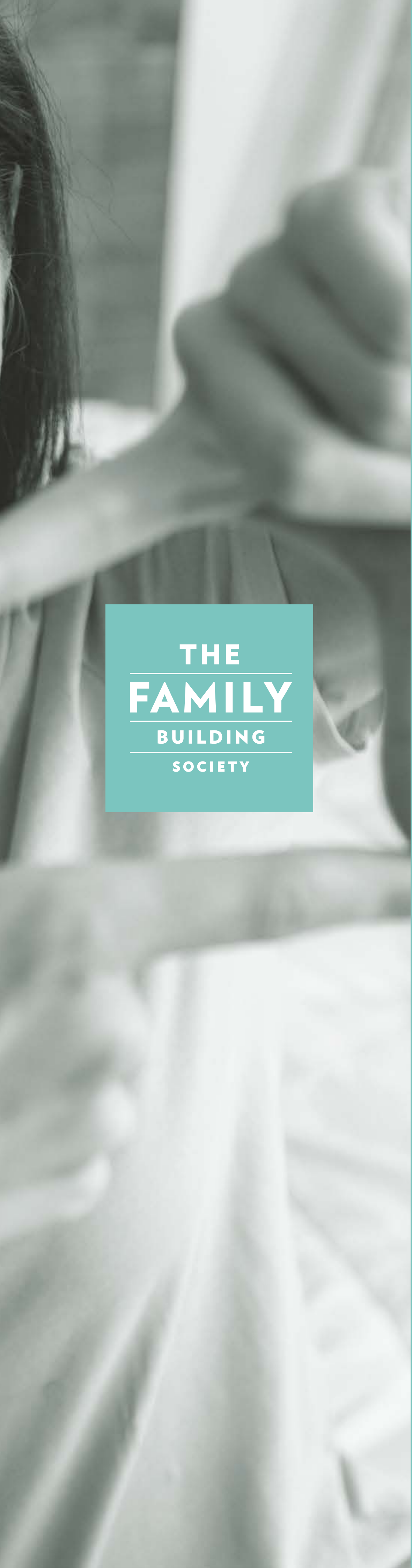
THE FAMILY BUILDING SOCIETY

Relax in family life

ANNUAL REPORT & ACCOUNTS 2021

ncbs
national counties
building society


A brighter
future together



Contents

All the case studies included in this document are real life examples although some of the customers involved do not want their photos or identities disclosed. Models and fictitious names have been used instead.

The first choice

OUR AIM IS TO BE THE FIRST CHOICE FOR FAMILIES' MORTGAGES AND SAVINGS. WE BELIEVE THAT FAMILIES WHO WORK TOGETHER ACROSS THE GENERATIONS DESERVE SAVINGS AND MORTGAGE CHOICES THAT ARE BACKED BY EXCELLENT PERSONAL SERVICE AND INNOVATIVE PRODUCTS.

That's why we are particularly pleased that some of the UK's leading mortgage and savings publications and websites have recognised our efforts across 2021.

SAVINGS ACCOLADES

MONEYFACTS AWARDS 2021

Moneyfacts Awards which is held in high esteem by Banks and Building Societies awarded us **Best No Notice Account Provider** and we were Highly Commended in the **Best Building Society Savings Provider** category.

SAVINGS CHAMPION AWARDS 2021/2022

Savings Champion Awards acknowledge excellence in a wide range of savings products. We were delighted to be recognised as finalists in the category for the Best Junior Cash ISA provider.

MORTGAGE ACCOLADES

WHAT MORTGAGE AWARDS 2021

Nominated and voted for by the public our Family Mortgage was awarded winner in the **Best Guarantor/Assisted Mortgage Lender** category and we were Highly Commended in the **Best Offset Mortgage Lender** category.

PERSONAL FINANCE AWARDS 2021

Finally, we were delighted to be announced the winner for the **Best First Time Buyer Mortgage Provider** from Personal Finance, again as voted for by the public.

2021 Highlights...

Key Performance Indicators

STATUTORY GROUP PROFIT BEFORE TAX

£22.5m

2020: £7.4m

UNDERLYING GROUP PROFIT BEFORE TAX*

£15.3m

2020: £7.2m

RESERVES

£133.7m

2020: £116.5m

TOTAL ASSETS

£2,338m

2020: £2,439m

*See page 19 for the definition of underlying group profit before tax

THE GROUP'S PROGRESS IS MONITORED BY THE BOARD USING A SET OF STRATEGIC KEY PERFORMANCE INDICATORS (KPIs). THE OUTCOMES FOR THE KPIs ADOPTED DURING 2021, WITH COMPARISON AGAINST THE 2020 RESULTS, ARE REPORTED BELOW WITH EXPLANATORY COMMENT.

KPI	Measure	2021	2020
1. GROUP PROFIT	Group profit after tax to mean assets ratio	0.78%	0.26%
2. NET INTEREST	Society net interest margin	1.38%	0.99%
3. COST/INCOME	Society cost/income ratio	57.9%	73.1%
4. COMMON EQUITY	Common Equity Tier 1 capital ratio	17.9%	15.9%
5. LOAN MOVEMENT	Movement in Group loan balances†	+2.9%	+1.2%
6. MORTGAGE ARREARS	Group residential mortgages in arrears by more than three months as a percentage of all Group residential mortgage accounts	0.38%	0.52%
7. COMPLAINTS	Number of complaints upheld in the year as a percentage of average number of Society members	0.14%	0.22%
8. SERVICE	Percentage of members reporting good or better service in the annual customer survey	92.2%	92.5%

†Excludes fair value adjustments

1. GROUP PROFIT AFTER TAX TO MEAN ASSETS RATIO:

As a mutual organisation the Society does not seek to maximise profit in order to pay a dividend to external shareholders. Instead, the level of profit is managed to maintain its capital strength against possible losses and to provide the basis for future development. The Group profit after tax ratio in 2021 was 0.78% (2020: 0.26%) reflecting the improved level of profit in the year enabling the Society to increase its capital base.

2. SOCIETY NET INTEREST MARGIN:

This is the difference between the average interest rate the Society receives on its loans less the interest rate it pays on its deposits. This needs to be large enough to allow a level of profit but not too high, in order to give Members fair rates. In 2021, this increased to 1.38% (2020: 0.99%) as a result of the lower funding costs available during the year.

3. SOCIETY COST/INCOME RATIO:

This ratio measures how efficient the Society is in terms of generating income from its cost base. For 2021 this reduced to 57.9% (2020: 73.1%) due to the improved net interest margin.

4. COMMON EQUITY TIER 1 CAPITAL RATIO:

This ratio, which is widely used to compare credit institutions, takes into account the perceived risk within the Group's balance sheet due to its lending operations and liquidity investment holdings. Understandably, given the events of recent years, regulators and analysts are looking beyond simply the level of capital held, to its capacity to absorb losses and also the relative risks within an institution's operations. Virtually all the Group's capital is accumulated profits in its reserves which meet the definition of Common Equity Tier 1, the highest quality available. The ratio of this to the regulatory risk weighted assets increased to 17.9% in 2021 (2020: 15.9%) following the increased level of profit in the year.

5. MOVEMENT IN GROUP LOAN BALANCES (EXCLUDING ACCOUNTING FAIR VALUE ADJUSTMENTS):

During 2021 the Group increased its loan balances by 2.9% which was slightly above the total for 2020 of 1.2%.

6. GROUP RESIDENTIAL MORTGAGES IN ARREARS BY MORE THAN THREE MONTHS AS A PERCENTAGE OF ALL GROUP RESIDENTIAL MORTGAGE ACCOUNTS:

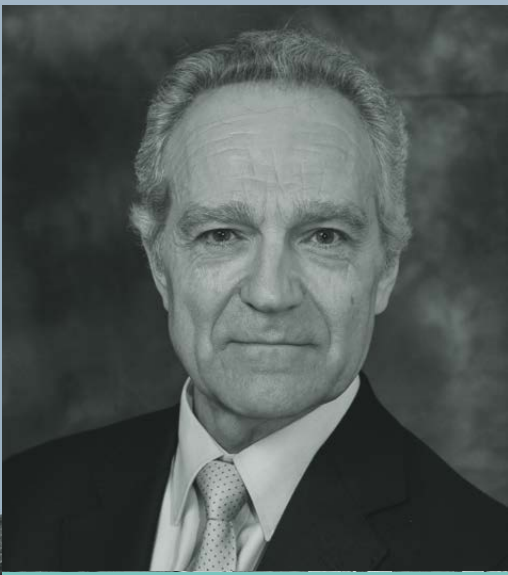
Our lending policy and underwriting processes are designed to ensure that our lending is responsible and affordable, but economic conditions and domestic situations inevitably give rise to some borrowers having difficulties maintaining their mortgage payments. It is pleasing to note that during 2021 with all the disruption to economic activity, the incidence of our borrowers incurring payment difficulties at the level of three months' payment has reduced and remains very low at 0.38% (2020: 0.52%).

7. NUMBER OF COMPLAINTS UPHELD IN THE YEAR AS A PERCENTAGE OF AVERAGE NUMBER OF SOCIETY MEMBERS:

This KPI tracks our service levels. In 2021 it was 0.14% (2020: 0.22%). We try to avoid any complaints, but inevitably some errors will be made. The percentage remains extremely low, but we continue to work to remove any causes for complaint.

8. PERCENTAGE OF MEMBERS REPORTING GOOD OR BETTER SERVICE IN THE ANNUAL CUSTOMER SURVEY:

At 92.2% (2020: 92.5%) this shows that the Society is regarded by most Members as giving consistently good service.



Rodger Hughes

Chairman's Statement

2021 WAS A YEAR OF CONSOLIDATION FOR YOUR SOCIETY AFTER A DOUBLING IN SIZE OVER THE PREVIOUS 6 YEARS. THE FINANCIAL RESULTS FOR THE YEAR WERE EXCELLENT AND AS A RESULT RESERVES HAVE INCREASED BY 15% TO £134M. THIS WILL FACILITATE THE RESUMPTION OF CONTROLLED GROWTH GOING FORWARD.

RESULTS

GROUP TOTAL ASSETS REDUCED BY 4% TO £2,338M DUE TO A REDUCTION IN CASH BALANCES COMPARED WITH THE EXCEPTIONALLY HIGH LEVEL OF LIQUIDITY AT THE END OF 2020. WE INCREASED OUR LOAN BALANCES, EXCLUDING FAIR VALUE ADJUSTMENTS, BY 3% COMPARED WITH THE PRIOR YEAR. STATUTORY PROFIT BEFORE TAX FOR THE YEAR INCREASED TO £22.5M AND UNDERLYING PROFIT BEFORE TAX WAS £15.3M. THE INCREASE IN UNDERLYING PROFIT PRIMARILY REFLECTS LOWER INTEREST PAYABLE, DESPITE THE SOCIETY CONTINUING TO PAY SOME OF THE HIGHEST RATES IN THE MARKET.

Given our size we have to follow the market and, as a saver myself I am only too conscious that not only do nominal interest rates remain at historically low levels but rising inflation has led to significantly negative real rates. Economists are predicting that interest rates will rise and inflation abate over the next couple of years and I hope they are right.

THE BOARD

After 7 years on the Board Fiona Crisp has decided to retire at the forthcoming AGM. She has made a particular contribution, first as chair of the Risk Committee and latterly as the non-executive director with primary responsibility for staff liaison. We shall be sorry to lose her and wish her well for the future.

OUR PEOPLE

Once again Covid-19 created a challenging environment for our staff in 2021. And once again they rose to the challenge. The excellent results set out in this Annual Report are a testament to their dedication and efficiency.

GOING FORWARD

Recently the Society has been a victim of its own success. Growth in the loan book ran ahead of profit growth so the previously high capital ratios gradually reduced. Reported capital was also reduced by the required accounting for financial derivative instruments relating to our legacy book of lifetime mortgages, which has created volatility in statutory profits.

In 2021 we consciously set out to consolidate the Society's position while generating more capital. The focus was therefore on continuing to maintain a high level of customer service through the pandemic and improving efficiency by upgrading systems. Having successfully achieved this, our new corporate plan is based on the resumption of controlled growth in the loan book over the next few years while systems upgrades continue.

Notwithstanding the improved capital position, the Board is still considering the feasibility of raising external capital to provide an additional cushion against either fair valuation accounting volatility or faster growth than expected.

The Society's conservative approach to lending is reflected in the low average loan to value ratio of 40% and the mortgage book has proved resilient throughout the Covid-19 crisis. Provisions required for mortgage losses are low. We do not believe that any changes to our risk appetite are necessary to secure further growth.

Our lead regulator, the Prudential Regulation Authority, has been pursuing operational resilience as one of its key priorities and as required we have identified and mapped the important business services, set impact tolerances for each and initiated a programme of scenario testing. Reporting to the Board on IT risks and performance, including cyber security, has been and will continue to be enhanced as the IT strategy that supports the corporate plan is executed.

AGM

We look forward to again meeting Members in person at this year's AGM. It is just not the same online. If you are unable to attend but have a question for the meeting, please submit it to the Board Secretary in advance so that it can be considered.

Rodger Hughes
Chairman
3 March 2022

Mark Bogard

Chief Executive's Review

2021 WAS THE SECOND, AND HOPEFULLY FINAL, YEAR DOMINATED BY COVID. FOR MANY IT WAS ANOTHER TOUGH YEAR. FOR YOUR SOCIETY, IT WAS A STRONG YEAR AND SHOULD LAY THE FOUNDATIONS FOR FURTHER MEASURED GROWTH, SO THAT WE CAN HELP MORE MEMBERS MAKE THE MOST OF THEIR MONEY OR BUY A HOME.

Clocktower - Epsom

BACKGROUND

As we started to learn to live with Covid, the Government and the Bank of England's significant support action, to spread the economic cost of the actions taken over many years, through vast borrowing, began to wind down. The furlough scheme ended. Payment holidays ended. The Stamp Duty holiday ended. The Term Funding Scheme, which has pumped billions of pounds into the financial system through banks and building societies, closed. Bank Base Rate rose in December from the historic low of 0.1% to the 0.25%; this was some tiny, good news finally for depositors, after we had been asked to prepare for the nightmare of a negative Bank Base Rate. With inflation running well above the Bank of England's 2% target, that potential horror now seems to be behind us.

Interest rates are still so low because the Bank of England wants people to spend, rather than save, to keep the economy going. We nevertheless encourage people to save as much as they can and the last couple of years have shown how important it is to have some rainy-day money set aside.

These rates, though lousy for savers, are good for borrowers. With inflation apparently taking hold, the future path of interest rates is uncertain. They are likely to rise. Perhaps by more than people might currently expect. There is a whole generation of borrowers today who have not had to live through such times. It may come as a shock. Though there is much more resilience built into the system than when we went into the financial crisis in 2007. The majority of mortgages are taken out at a fixed rate for 2, 3 or 5 years, so rate rises do not impact immediately. We also currently stress members' borrowing during the underwriting process at 3% above our variable Managed Mortgage Rate, to ensure that their borrowing is affordable to them, should rates have risen when they come to the end of their fixed term.

The Stamp Duty holiday for house purchases below £500,000, ended in the autumn of 2021, which was disappointing. We believe that this elegantly crafted policy was a real and demonstrable success as more people moved. Stamp duty gums up the housing market. It is an easy tax to avoid – you just don't move. But this means that we are not making best use of our housing stock, for example, older people do not downsize out of underutilised family homes. Moving also generates a great deal of economic activity and employment. Our sense would be that the Government benefits more from this activity than the Stamp Duty foregone. It also helps the levelling up agenda, as properties above £500,000 are more prevalent in the South East. Some thought that the end of the Stamp duty holiday would immediately knock the housing market. It didn't. The continuing imbalance of supply and demand meant that prices rose by around 10% in 2021. We simply need to build more homes.

WHO WE ARE?

The Family Building Society is about how we live today. We believe that families who work together across the generations, to make the most of their money, welcome having their specific needs met with innovative, value for money products, backed by excellent personal service.

We are delighted to receive much positive press comment that often belies our size. We also seek to campaign on issues, like Stamp Duty, that we believe are relevant to our Members, with politicians or regulators. At the heart of this is that we treat people as individuals. Young and old, we look at your individual circumstances; we want to know and understand you. The biggest providers, whatever their intentions, just can't. They are driven too much by the volumes that they must achieve to keep their large operations going.

We are pleased that we have continued to win awards for our products. Nominated and voted for by the public, our Family Mortgage won the What Mortgage best guarantor/assisted mortgage lender and, also voted for by the public, we won Personal Finance best first time buyer mortgage provider. We also won Moneyfacts best no notice account provider. This combination of awards really evidences what the Family Building Society is all about.

The Society is sustained by the margin between the deposit rate we offer savers and the interest we can charge our borrowers. That underlying margin was extremely tight in 2020 at 0.99%; it rose in 2021 to 1.38%. This was not due to any real increase in mortgage pricing but rather to a reduction in our cost of funding – what we pay depositors. This reduction was a function of significant liquidity in the system (lots of money), as a result both of the Bank of England Term Funding Scheme and people spending less during the pandemic i.e. saving more. Even though profits are not our focus, we must continue to build the Society's capital base to serve both existing and future customers. This rose by £17.9m in 2021 improving materially on the position in recent years. We seek only to make a fair, sensible return through the economic cycles which we believe Members understand and they are comfortable with.

Whatever happens in the market, we will continue to do the best that we can in balancing the interests of our depositors and our borrowers, whilst building for a long-term future.

We have built a reputation with independent mortgage advisers, who introduce most of our mortgage Members to us, for our underwriting process. We do not get computers to take judgments, as our larger competitors who "credit score" people do. As mortgage advisers say to us, we are people that you can tell a story to, set out their client's case, especially if it isn't straightforward. You cannot do that with a computer.

In particular, we have built an expertise over many years of lending money to people in and into retirement. Provided older borrowers properly understand the issues they may face as they grow older, our experience is that they make good customers, almost without exception. This experience was reinforced across the pandemic. Indeed, lending to older borrowers is becoming ever more of a focus in society generally; this is likely to continue to increase given how people are going to pay for their old age or help their children or grandchildren financially whilst they are still alive.

We are very mindful of our need to offer extra help and support to vulnerable customers. We have a dedicated team that are available to offer help and support to those customers who may suffer with an illness, disability, abuse or mental health issues.

I'm pleased to report that our annual overall customer satisfaction survey result was again very strong. This is a real testament to our staff who serve Members, as the pandemic has inevitably frayed some people.

We also monitor customer compliments, not just complaints (which our regulators require us to do), and I am pleased to say we continue to receive a heart-warming number of compliments.

Despite all the uncertainties, dislocation and the very real pressures around us, we have been able to get on with what we are here for.

I would now like to turn to our financial performance in 2021.

OVERALL GROUP FINANCIAL PERFORMANCE

Our statutory result is a profit before tax of £22.5 million, up from £7.4 million in 2020. The underlying Group profit before tax in 2021 was £15.3 million up from £7.2 million the previous year. This is a strong result. Our net interest income was 37% ahead of last year, largely as a result of a reduction in our cost of funds, which we do not expect to be repeated in future years. It is pleasing that credit losses and provisions for bad or doubtful lending fell in the year from already low levels.

The difference between the underlying profit, which is a reflection on how the Society's day to day activities are performing and the statutory figure, is mainly made up by "adjustments" on financial instruments. In particular, there are a number of quite large adjustments associated with the assumptions around the accounting for the Society's legacy book of Lifetime Mortgages (LMs) and associated interest rate swaps. We have benefited from the rising House Price Index and a rise in interest rates as at the year end against where they were the previous year. The Group still holds around £13.5 million in its balance sheet against the No Negative Equity Guarantee on the LMs; the balance of the LMs at year end was around £163 million and now represent only around 9% of our total loan book. This £13.5 million relates to a cost which may or may not be incurred as the LMs continue to run off over the next 30 years. If this amount is not required in full, it will be written back into the Income Statement.

The Society's cost income ratio fell to 57.9% in 2021. It will rise, as we invest further in our future.

BALANCE SHEET

The Group's balance sheet was £2,338 million, down slightly from last year, when we held a higher liquidity position given the background uncertainties we faced. We have grown quite significantly since launching the Family Building Society. Size for size's sake is not a sensible goal but scale is important to help us be able to meet the costs of IT, infrastructure, regulation and compliance and any negative accounting adjustments that we may suffer. Our Common Equity Tier 1 capital ratio was 17.9% up from 15.9% in 2020. The higher the level of capital, the bigger the loss that can be sustained before the Society is unable to meet its liabilities.

RETAIL SAVINGS

First and foremost, we want to be a safe and attractive home for your savings.

The Society has maintained its tradition for paying some of the highest rates in the market, even though we understand that these remain low by historic standards. However, we simply cannot buck the market. If we are even a little out of kilter with what others are paying, we would get engulfed in funds; funds which we simply would not be able to lend out sensibly as mortgages to generate the funds we need to pay depositors their interest.

So it is unfortunately not possible for us to pay our Members the market leading rate the whole time and we do not want to compete just on price. Our Windfall Bond product offers savers bank base rate plus the chance of winning prizes of up to £50,000 and we believe, offers a better chance of winning than Premium Bonds, plus the added benefit of paying bank base rate. Our Market Tracker product tracks the top 20 accounts, so saving you the bother of endlessly changing accounts. The success of these accounts is a testament to the Society's ability to offer something different and relevant.

"Keep being a fantastic building society"

CUSTOMER COMMENT

MORTGAGES

We grew our overall mortgage book by 3% in 2021. We hope to return to a higher level of growth in 2022 and beyond.

Competition in the mortgage market remains intense both on price and criteria. We cannot compete with the largest players on price and we do not want to decay the quality of our loan book by materially loosening our criteria. This means we have to better serve the independent mortgage brokers who introduce most of our business to us and design products to meet specific client needs, whilst maintaining our underwriting standards and margin, and meeting the significant regulatory constraints that govern the overall shape of our mortgage book. We have to be efficient, helpful, innovative, agile and smart.

We had a continuing level of mortgage applications at more than £350 million. We completed on £283 million of new mortgage business and went into 2021 with a reasonable pipeline of business. Net new mortgage lending was £48 million. Total loans and advances including fair value adjustments ended the year at £1,866 million.

We have remained cautious on the Loan to Value that we will lend at, so that we are more protected than many other firms from any fall in the housing market if, for any reason, our borrowing Members cannot keep up with their repayments. Overall, our average loan to value on new business last year was around 50%, which is a comfort both to the borrowers and the Society – we do not want to see borrowers overstretched or facing negative equity, especially as interest rates start to rise.

The Society's prudent lending risk appetite is implemented through the individual assessment of loan applications by experienced underwriters and the success of the approach is demonstrated by the incidence of arrears remaining low. Whilst we observe responsible lending principles, so that borrowers should find their mortgages affordable, genuine difficulties can arise in relation to maintaining mortgage payments in adverse economic conditions or changes in personal circumstances. We offer overstretched borrowers a range of options in accordance with our arrears policy and procedures which are compliant with regulatory guidance, best practice and the principles of Treating Customers Fairly (TCF). Reaching the best outcome for the customer is, though, dependent on borrowers making early contact with us and openly discussing their circumstances. It is pleasing to report that only 2 residential properties mortgaged to the Group had to be repossessed during 2021. We have only 73 accounts in arrears, only 13 of those by greater than 12 months. A number of these arrears cases are extant whilst the borrower's estate is wound up. In the final analysis, most problems in banking are caused simply by lending money to people who are unable to repay it. This is why credit quality is fundamental to the Society's security and its long-term future.

Our review of the arrears situation at the end of 2021 reduced our provisions in the Group to £0.6 million from £1.2 million.

TREASURY OPERATIONS

The Society's overall funding last year remained strong. Changes in wholesale market dynamics as a result of the pandemic palliated somewhat and we were able to be more active in the wholesale money market, taking advantage of the relatively lower interest rates on offer when compared with retail deposit rates.

This activity is subject to careful management, with targets set for the mix of funding in terms of both source and duration and other limits set to ensure a prudential approach. It is pleasing that the Society is able to raise wholesale funding of varying maturities, including some longer term funding, on attractive terms. The Society also takes advantage of funding schemes provided by the Bank of England.

Although the Society has not experienced any difficulties in raising funds throughout the different and unusual market conditions that have prevailed across recent years, we recognise the importance of maintaining a strong liquidity position at all times. The Society's framework is subject to ongoing review. Central to this regime is the holding of a portfolio of high quality, readily realisable liquid assets, mainly UK Gilts and cash at the Bank of England, in order to provide a buffer in the event of any major funding issues arising for any reason. Alongside the holding of these assets, there is a requirement to prove their value at regular intervals, either through sale or use as collateral in sale and repurchase (repo) transactions.

CUSTOMER SERVICES

Our guiding principle remains to provide consistently attractive, innovative and dependable products supported by convenient and personal service.

We want to be modern, but with traditional values.

Our online accounts are backed up by experienced and well-trained people on the telephone, all in our Epsom office. Our branch is available for those who wish to deal with us in person. We continue gradually and carefully upgrading and updating our systems and improving our operational resilience, for when, inevitably, something goes wrong. We place an especial and continuing emphasis on our Cyber Security and it is important for Members to play their part in this by remaining vigilant too at all times. The threat posed in this area is only increasing. Nevertheless, overall, the way we do things internally needs to become ever less paper based and more digital.

Our goal is always to answer the telephone quickly – we all hate hanging on. On those occasions where we cannot answer, we call people back promptly. We have increased the efficiency with which we are able to make mortgage offers, which we know is important to brokers and home buyers keen on getting their hands on their dream home.

Consistent with the principles of TCF, we take care in the design of our products to ensure they will meet the needs of the customers for whom they are designed and we assess the impact of any new products on existing account holders. We do not reserve any of our products for new customers only and we notify our savers and borrowers of the products available to them upon expiry of special terms, such as fixed or discounted rates. We believe that we do well in retaining mortgage customers at the end of their product terms. Our websites are updated promptly and provide full details of our product range. In addition, there are a number of mailings undertaken each year which we use to keep customers advised generally of service developments.

Feedback from customers is much appreciated, with positive comments reinforcing our actions, whilst any instances of unsatisfactory service cause us to investigate and determine improvements for the future. It is rare that complaints from our Members are referred to the Financial Ombudsman Service ("FOS"). In 2021, a total of 8 FOS decisions were received and none of our decisions on the original complaint were overturned.

SUBSIDIARY OPERATIONS

Our Family & Arden Homes joint venture, started late in 2018, returns the Society to the original roots of building societies, providing homes. We allocated a small amount of capital to the granting of loans for the purchase of homes for the Society to then let out. To do this, we entered into a partnership with a family who have long experience and have had great success in this area. It is the intention that the properties are held for the long term, though individual properties may be sold in the interests of managing the portfolio. The annual revaluation of the properties acquired showed a further gain in 2021 and this, together with the rents payable, provided an attractive return on the capital that the Society has invested.

The Society also continues to invest in smartmoneypeople.com, a website that allows people to review their experience of financial services products and providers. Like Tripadvisor but for financial services. We believe that this is a service that people will come to increasingly value over time, just as so many now check reviews before doing or buying something. It is run independently from the Society. It continues to grow and performed in line with expectations in 2021.

Counties Home Loan Management Limited historically acquired books of mortgages though it has not done so for many years. Its residual balances include a portfolio of Lifetime Mortgages. As the books are in run-off and redemptions exceeded capitalised interest, the balances outstanding reduced during the year. It is funded and supported by the Society.

"Your communications are not overdone in frequency but are always clearly set out and therefore very easy to follow."

CUSTOMER COMMENT

PERSONNEL

Across the Society, the people who explain what we have to offer to mortgage brokers, answer calls, give customers advice, open and close accounts, underwrite the loans and process the business, manage the money, evolve our products and produce our marketing materials, make sure our systems and IT operate and are resilient, manage our risks, look after our staff, keep what we do legal and compliant, prepare the accounts and make sure that the office functions, have all had another challenging year.

Following the latest ending of Covid related restrictions, our staff continue to work flexibly between the office and home. Many enjoy the additional flexibility it gives them, nevertheless fulling the obligations that their role carries.

We have continued to have low levels of staff absence during the pandemic, in contrast to some organisations. This goes to a collegiate attitude and the strong desire and commitment of staff to serve.

Our staff should be proud of what they have done in 2021.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Society has always recognised its community, marketplace, employer and environmental responsibilities. We met these responsibilities, almost instinctively, as a by-product of our mutual, customer owned status and business ethos, but they are also enshrined in a Board-approved CSR Policy Statement that encompasses all facets and provides a steer for the ongoing development of this important issue which is driven by a staff-led Committee.

Our activities in the community include support for selected charities, schools, clubs and voluntary organisations based locally to the Society's head office.

A particular highlight for me was an event we sponsored for the local community held at the Houses of Parliament in early December. Those attending consisted largely of our local healthcare community, including many frontline NHS workers – doctors, midwives, paramedics. I was worried that attendance would be very low. In fact, it was close to 100% of those who had accepted the invitation. It was fascinating to hear their first-hand experiences of the pandemic. Universally they felt that we had now to move forward and "learn to live with" Covid. It was a good evening.

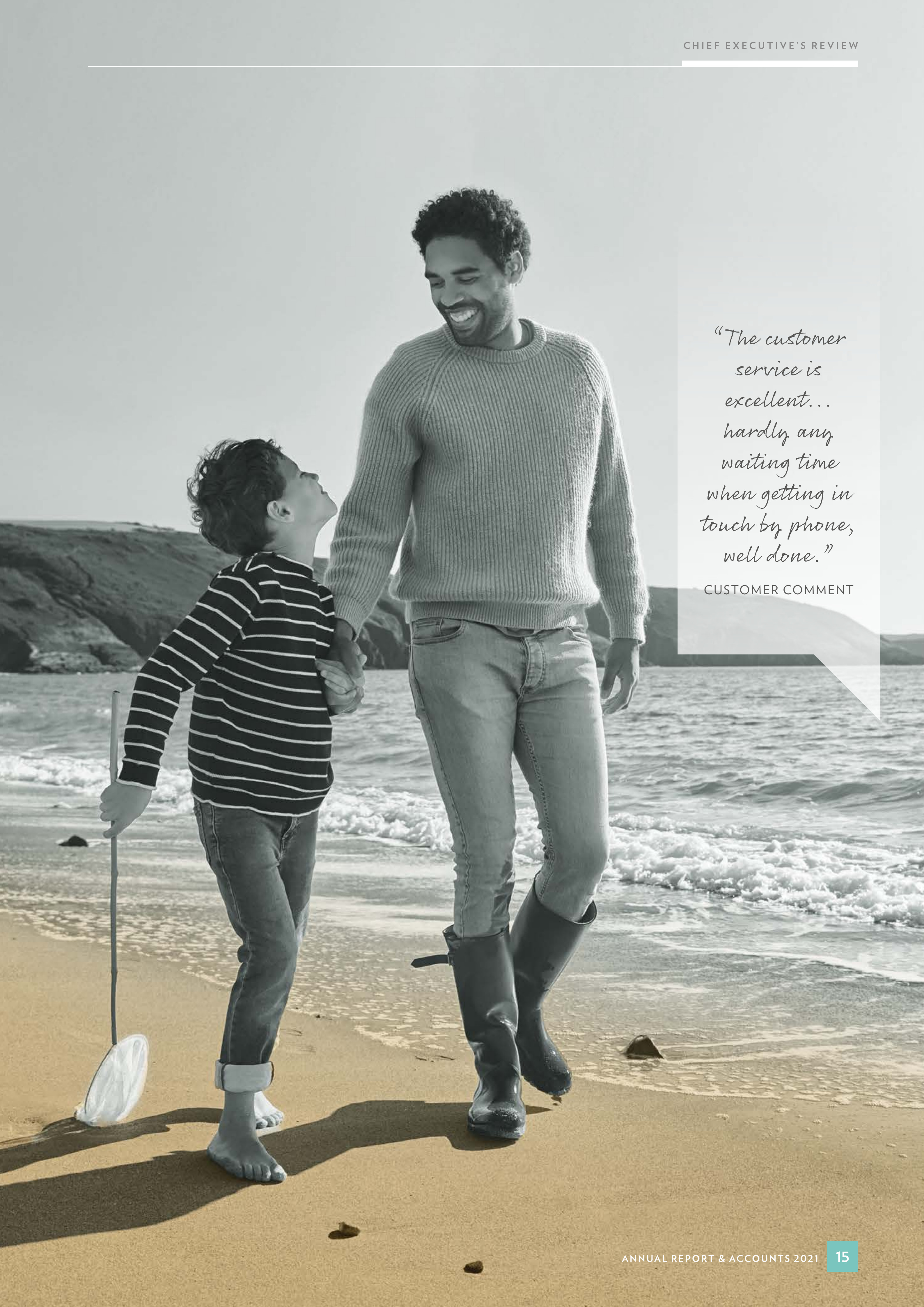
THE FUTURE

Founded on our result for 2021, we can look forward to growing faster again in a measured, sensible and cautious way, whilst also investing in staff and the future infrastructure of the Society to help us continue to serve our Members in the ways that you want us to.

We have learnt that predicting the future with any accuracy is impossible. So we must continue to remain vigilant, and above all resilient, to dealing with the uncertainties that we all face and which, in significant part, continue to prescribe the Society's relationship with you, our Members.

After the especial trials of the last two years, we still face the future with optimism. We are investing in that future and may seek further capital, if it is appropriate to do so. If we offer customers what they want – innovative, good value products, that meet their needs sensibly, delivered efficiently but with old-fashioned customer service, we will continue to prosper.

Mark Bogard
Chief Executive
3 March 2022



"The customer service is excellent... hardly any waiting time when getting in touch by phone, well done."

CUSTOMER COMMENT

Strategic Report

Making sense of it all...

THE STRATEGIC REPORT INCLUDES THE BUSINESS REVIEW AND OTHER INFORMATION ABOUT THE GROUP. IT IS INTENDED TO PROVIDE MEMBERS AND OTHER USERS OF THE ACCOUNTS WITH A STRAIGHTFORWARD REVIEW OF THE GROUP'S BUSINESS, ITS ENVIRONMENT, AND ITS PERFORMANCE IN ADDITION TO THE COMMENTS IN THE CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW.

WHAT WE DO

Essentially, the Society borrows money from Members to provide them with a return on their savings and lends it out to other Members in the form of mortgages to provide them with the finance to buy residential property mainly as their own home but also for some to rent out to provide homes to others. In doing this we try to balance the rate we pay to savers and the rate we charge borrowers to give a favourable outcome to both. The difference after costs is the profit. Although as a mutual organisation we do not have shareholders to whom we need to pay dividends, we need to make a profit to maintain a strong capital position for the security of Members and to enable growth. In addition to retail deposits, the Society takes deposits in the wholesale money markets as part of its Treasury operations. These help to reduce the overall cost of borrowing for the Society and diversify funding. To manage the various risks which are noted later in this report, the Society also transacts derivatives with major banks within the restrictions established by the regulators and Board.

The Society is regulated by law, in particular the Building Society Act 1986, and several bodies established by the Government. Our banking regulator is the Prudential Regulatory Authority (PRA) and our conduct regulator is the Financial Conduct Authority (FCA), although we also still have to comply with certain EU regulations.

Investment continues to be made in the Society's technology infrastructure, operating systems, and software applications in order to meet regulatory requirements, provide Members with the products and services they expect and to protect the Society and its Members from the ever present cyber related risks.

We first achieved Cyber Essentials accreditation, a UK Government backed scheme, in July 2017 and have continued to improve our ability to protect from, detect, respond to and recover from any malicious attempt to breach our defences. In 2018, we achieved the higher accreditation level of Cyber Essential Plus and this has been successfully sustained each year since. We continually review and remediate any areas of vulnerability and will seek to renew our accreditation again in 2022.

Operational Resilience remains a priority area of focus to ensure that the Society can continue to deliver its critical customer facing services if disruption occurs. We have robust Business Continuity processes that are regularly tested to prove our ability to operate from our contingency site or to switch to our alternative Data Centre within the impact tolerances agreed with the Board.

The Society's IT Strategy is reviewed every two years to ensure that our technology investments continue to deliver a secure, resilient and scalable platform.

Investment in our staff is on-going with the average number employed increasing from 148 full time and 12 part time in 2017 to an average of 164 full time and 19 part time this year. Frequent staff training is given both internally and by external providers to give better service to Members and ensure the Society demonstrates the right culture. This will continue into 2022 and beyond. The Board's view is that this investment is essential to the future of the Society and to improve service.

SOCIETY AVERAGE STAFF NUMBERS

THE FAMILY BUILDING SOCIETY

We believe that Members are best served by a Society that is growing sensibly, cautiously and profitably. It means we are relevant and sustainable for the long term. We also believe that families who work together across the generations, to make the most of their money, welcome having their specific needs met with innovative, value for money products backed by excellent, personal service. To meet these aims we launched the Family Building Society (FBS) in July 2014 – the first new building society brand in over 30 years. A number of successful new products have been launched through FBS including the Windfall Bond, the Market Tracker Saver and the Retirement Lifestyle Booster.

On the lending side we underwrite each mortgage individually. Young or old, we approach each borrower on their own merits, something the big banks find hard to do. This, combined with our prudent approach to risk, means that we have developed an enviable book of low Loan-To-Value mortgages with very low levels of default or arrears.

The success of FBS resulted in the decision to make FBS the main brand for the Society from December 2016 onwards. We are, however, very mindful of our need, and our obligation, to continue to serve existing National Counties' customers. We are gradually transferring them to Family Building Society products as they see fit. It is important to note however that this Report & Accounts is still for the legal entity National Counties Building Society (NCBS), "the Society", because the legal name of the Society has not been changed. The results are for the Society's business whether that has been conducted under the NCBS or FBS brand; it is just that the branding has now been re-focussed on FBS. The Board has considered asking Members to agree to change the Society's name to FBS but this would be a major project and no firm decision has yet been taken when to do this.

The Group results include the results from the following businesses:

Counties Home Loan Management Ltd

This is a wholly owned subsidiary of the Society. It purchased a number of mortgage books in 2006 to 2010 which are slowly running off and no further assets have been purchased since 2010.

Family & Arden Homes LLP

During 2018 the Society established a partnership with the Arden family with the objective of buying a small number of properties to let in the East End of London. The Society controls the partnership. The decision to provide housing is a return to one of the core purposes of the Building Society movement and with careful purchasing and judicious management we also hope to make a return for Members over the long term. An investment of £10 million in the form of loans to the partnership was allocated to the purchase of property and this became fully utilised during 2020. We are now evaluating what we do next.

Smart Money People Limited

2018 also saw the Society make a small-scale investment for a minority stake in Smart Money People (SMP). We think it's important that people get good information on how financial services companies treat their customers. SMP operates a website that allows customers to give their feedback and say what they really think. In recognition of the growing success of the venture the Society acquired the remaining shares of SMP in 2020.

National Counties Financial Services Ltd

is now dormant.

ECONOMIC ENVIRONMENT

The extraordinary events of the past two years have been an exceptional test of the Society's model. We have long believed that the Society's prudent lending at relatively low Loan to Values, strong liquidity, robust balance sheet and capital meant that the Society would survive and thrive in the years ahead, and all those things have proved to be real strengths through a period of immense uncertainty.

During the course of 2021 the Bank of England maintained its base rate of interest at 0.10% until the very close of the year, continued large scale asset purchases and made available term funding at low rates. We cannot buck the market and this inevitably meant we were constrained in our deposit pricing.

A full year of exceptionally cheap term funding suppressing the pricing of deposits and a resurgent housing market inevitably combined to considerably improve our margin through the year. While this has driven a more than satisfactory profit outcome for the Society in 2021 we have observed the prospects for Inflation and the impact of a rising interest rate environment carefully and suspect that we are entering a new economic cycle, the effects of which remain uncertain.

We continue to think there is sensible lending to be done at sensible margins. In order to succeed regardless of the outcome however, the Society will continue to offer very high levels of service and establish new innovative products and services for our Members. We think this is the best protection for our Members against whatever a changing economic environment may bring.

KPIs

The Board manages the Society and its business using many tools. One of these is the monitoring of Key Performance Indicators. These are shown on page 4.

FINANCIAL PERFORMANCE

FRS 102

The Society was required by law to adopt either full International Financial Reporting Standards (IFRS) or FRS 102, the UK Standard, for the accounting period ended 31 December 2015 and subsequent years. The Society chose to adopt FRS 102. Although slightly less onerous than full IFRS, the Society also chose to adopt IAS 39 on Financial Instruments which has a material effect on the accounting treatment of certain financial instruments. We are required to book these at their fair value which can have a significant impact on the results of the Society and Group. We have chosen to adopt hedge accounting for many assets to reduce volatility in the profit of the Society and Group. Volatility, however, cannot be eliminated entirely.

PROFIT BEFORE TAX

The Group and Society both had an excellent trading year. The Group's statutory result before tax for the year ended 31 December 2021 was a profit of £22.5 million compared with a profit of £7.4 million in 2020. The improvement in profitability was driven by a £9.2m increase in net interest income due to the differential between mortgage rates and the full year of lower savings rates and a £7.0 million improvement in the derivative valuation and hedging adjustments booked under FRS 102. An increase in administrative costs of £1.9 million offset some of this. Group underlying profit levels reached £15.3 million, up from £7.2 million in 2020. In the Society, there was a profit before tax of £19.3 million compared with a profit before tax in 2020 of £4.1 million.

STATUTORY PROFIT BEFORE TAX

	GROUP		
	2021	2020	Change
	£m	£m	£m
Net interest income	**33.7**	24.5	9.2
Other income	**1.1**	1.1	-
Net gains from financial instruments	**7.2**	0.2	7.0
Management expenses	**(20.1)**	(18.2)	(1.9)
Impairment losses and provisions	**0.6**	(0.2)	0.8
Profit before tax	**22.5**	7.4	15.1

A reconciliation of the statutory profit above to underlying profit is shown in the section below.

UNDERLYING PROFIT

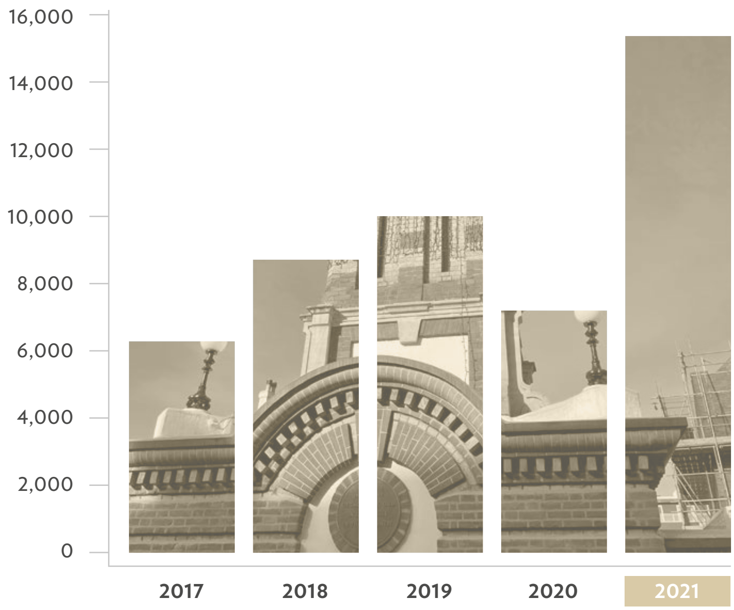
The statutory figures included in the Annual Accounts are prepared under FRS 102 and include the impact of fair valuing derivatives which include the No Negative Equity Guarantee (NNEG) liability and ineffectiveness when accounting for the hedges the Society takes out to economically protect itself from movements in interest and other market rates. These create profit volatility, for example from movements in market interest rates and assumptions. The Board take the view that it would be misleading to include these items in the underlying profit calculation as they are affected by dynamics outside the control of the Society and are largely related to a portfolio of assets (Lifetime Mortgages) that are a closed book in run down. These items do not therefore reflect on the underlying trading of the Society or Group.

The Board believes it is appropriate to remove the effect of these adjustments when looking at the underlying performance of the Society and Group. The Group's underlying profit can therefore be summarised as follows:

UNDERLYING PROFIT BEFORE TAX

	GROUP		
	2021	2020	Change
	£m	£m	£m
Profit before tax per statutory accounts	**22.5**	7.4	15.1
Add back net gains from financial instruments	**(7.2)**	(0.2)	(7.0)
Underlying profit before tax	**15.3**	7.2	8.1

UNDERLYING PROFIT BEFORE TAX



NET INTEREST INCOME

Net interest income is the amount of interest the Group receives less the interest it pays on its funding. It is the Group's main source of income. This increased by £9.2 million in 2021. Our underlying retail net interest margin was supported by reducing swap costs given the very low base rate environment.

OTHER INCOME

Other income of £1.1 million (2020: £1.1 million) in the summary table includes fees and commissions receivable of £0.1 million (2020: £0.1 million), other income of £0.7 million (2020: £0.5 million) and the net gain on investment properties of £0.3 million (2020: £0.5 million).

Most of the fees received are spread over the expected lives of the underlying asset or liability to which they relate under FRS 102. Net fees and commissions receivable in 2021 were £0.1 million (2020: £0.1 million). Included is modest income from third party suppliers of services for referring our Members to them when they have an interest in additional services not offered directly by the Society.

The other income of £0.7 million (2020: £0.5 million) mainly relates to the rental income from the investment properties and the income from SMP.

The net gain on investment properties includes a £0.3 million gain on the annual revaluation of the investment properties (2020: £0.4 million) and a gain on the sale of an investment property in the year of £nil million (2020: £0.1 million).

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

This category includes the movements in fair value of a) derivatives that are not being accounted for as hedging underlying assets or liabilities and b) the ineffectiveness under IAS 39 of any accounting hedges.

The former include: derivatives that are economically hedging the pipeline of mortgages that have yet to complete but which are not allowed to be hedge accounted until the underlying assets complete; swaps taken out to protect the Society from basis risk; and the movement in the valuation of the No Negative Equity Guarantee (NNEG) relating to the Lifetime Mortgages which is treated as an embedded derivative.

The latter includes the main hedge ineffectiveness that comes from the Lifetime Mortgage portfolio. Due to the value of the portfolio even small levels of ineffectiveness can cause relatively large movements in the valuation concerned. The effectiveness of hedging for the main residential mortgage book, gilt asset swaps and the remains of the commercial lending book also causes some volatility.

During the year we continued to adjust our hedging arrangements for our Lifetime Mortgage book with the counterparty to match the level of prepayment that we have seen with the aim of reducing the amount of ineffectiveness that may impact our results in future years.

Before 2011 the Society originated and CHLM acquired a portfolio of Lifetime Mortgages (LMs). The Group has not acquired or written any new LMs since then.

A Lifetime Mortgage is one where a loan is taken out against the value of a property but where the interest charged is not paid during the life of the loan. Instead, the interest is added to the loan balance and, at the end of the term (which typically comes on the move into residential care of the borrower or their death), the loan balance (including the rolled-up interest) is deducted from the sale proceeds of the house.

To protect the borrower from the possibility that the loan balance is greater than the property value at the end of the loan the LMs included what is referred to as a No Negative Equity Guarantee (NNEG). This was a promise that the borrower wouldn't be charged for any excess of the loan value over the property value. The inclusion of a NNEG promise in a LM is a normal feature of a LM written to the Safe Home Income Plan standards of the Council of Mortgage Lenders.

This promise has a value and we need to show the users of the accounts what that promise is worth. IAS39 requires us to use Fair Value Accounting to do this. The standard requires us to value the NNEG by reference to what an independent buyer and seller would value the NNEG at.

Since the Group originally acquired the LMs these mortgages, now sometimes referred to as Equity Release Mortgages (ERMs), are mainly written by insurance companies and residual books of LMs are also held by a number of Building Societies. Therefore, we have to understand how these other market participants would price our NNEG when we try and work out what it is worth. However, there is no observable market in the sale of NNEG liabilities so we need to model and understand the component parts that make up a NNEG valuation.

Two key determinants of the value of the NNEG are assumed House Price Inflation (HPI) and HPI Volatility. Volatility refers to the probability that any one house price will be above or below the average HPI assumption at any one moment in time. A higher volatility assumption means that there is a greater risk that the house price will be higher or lower than the average assumed. This risk has a cost so that a higher volatility assumption leads to a higher value for the NNEG.

In making a judgement on the volatility assumption, the Directors take note of the paper published by the Actuarial Research Centre of the Institute of Actuaries ('UK Equity Release Mortgages: a review of the No Negative Equity Guarantee') on 19 February 2019 that identified a probable value for volatility in the range of 3-6% and volatility in a stress scenario in the range of 10-13%. In each year, the Directors evaluated data for the UK housing market that continues to bear out this perspective. In addition, other Building Societies have published their own assumptions in their respective Reports & Accounts. These have shown that HPI volatility has been valued in the range of 8-10% and therefore, the Directors concluded that a HPI volatility assumption for the Group of 10% would be appropriate. The Directors also note that the allowance made within the calculations for Dilapidations (the cost of making good a property before it can be sold at a fair market value) is substantial at 1% and is also supported by the work that the Group undertakes to maintain contact with its borrowers and assess the condition of properties during the life of a LM loan. This factor is supportive of a lower volatility assumption.

The Directors also considered the underlying rate of assumed HPI that should be taken into account over the remaining life of the LMs. It is important to note that this assumption relates to HPI over the very long term. The long term prospects for GDP growth, CPI inflation and the structural housing shortage that persists in the UK are therefore the main factors driving the HPI assumption. Given these factors, the Directors have concluded that a long term HPI assumption of 3.75% would be the most appropriate to use for the Society's lifetime mortgage book.

During this year we refreshed our analysis, and as a result of this review, the assumptions relating to the NNEG liability have remained unchanged at the 2021 year end.

Although the main NNEG liability assumptions therefore remain unchanged in 2021, the NNEG liability reduced by £5.8 million. £0.5 million of the reduction relates to movements in the discount curve and prepayments and £5.3 million relates to the effect of the actual rate of HPI in the year being in excess of the assumed long term rate.

The value of the NNEG is £7.5 million in the Society (2020: £10.8 million) and £13.5 million in the Group (2020: £19.3 million) and the Group credit for 2021 was £5.8 million (2020: credit of £8.9 million).

MANAGEMENT EXPENSES

Management expenses include staff costs and other operating overheads plus the charge for depreciation of fixed and intangible assets. As noted elsewhere, the Group has continued to invest in upgrading its technology and increasing staff numbers and training.

The investment in systems has increased the Group's depreciation charge in recent years along with the capital purchases of equipment and intangible assets. Along with this investment, the additional staff costs have seen the Group's overall administration costs including depreciation increase by £1.9 million in 2021. This growth in costs is managed tightly to support the growing size of the Society. We expect to continue sensible investments in staff, IT and marketing as the Society continues to grow.

"The fact that we we're older didn't make any difference to you, where others just didn't even consider us."

CUSTOMER COMMENT

LOAN IMPAIRMENT AND PROVISIONS

	GROUP		
	2021	2020	Change
	£m	£m	£m
Residential loan impairment and provisions	**0.4**	(0.1)	0.5
Commercial and other loan impairment and provisions	**0.2**	(0.1)	0.3
Total loan impairment and provisions	**0.6**	(0.2)	0.8

The table above shows an analysis of the £0.6m credit in the Income Statement in the year (2020: charge of £0.2m) from provisions for impairment losses on loans and advances.

The total Group loan impairment provisions at the year-end amounted to £0.6 million (2020: £1.2 million). This decrease in provisions reflects a reduction in the provision held against the commercial loan book following repayment of the loans and a reassessment of the size of the collective provision given the improved economic outlook set against the high quality of the overall loan portfolio.

RESIDENTIAL LOAN IMPAIRMENT AND PROVISIONS

The Society continues to experience low levels of impairment and arrears on its residential book because of its stringent lending policies and individual underwriting rather than computer scoring methodologies. Its subsidiary CHLM also has low levels of arrears and losses on the residential loan books it purchased.

For the individual impairment provisions against residential loans without a NNEG, 2021 saw a credit of £40,000 (2020: £nil) and the collective provision a credit of £358,000 (2020: charge of £91,000).

LOAN FORBEARANCE AND ARREARS

At year-end 2021, the Society had 15 accounts with balances totalling £3.4 million (2020: 35 accounts totalling £7.4 million) subject to forbearance against which provisions of £nil (2020: £297,000) had been made. At the Group level, 32 accounts with balances of £4.7 million (2020: 52 accounts totalling £9.2 million) had been subject to forbearance, with provisions against them totalling £nil (2020: £367,000). An analysis of the types of forbearance used by the Group is shown in Note 29.

In terms of accounts in arrears by more than 12 months, the Group had 13 such accounts at 31 December 2021 (2020: 10) with balances of £1.8 million (2020: £1.2 million) and very low arrears of £0.1 million (2020: £0.1 million).

During 2020 and 2021, the Society provided some of its Members with Covid-19 related mortgage payment holidays. At the end of 2021 just 5 borrowers were still receiving forbearance assistance after the end of their payment holidays.

COMMERCIAL LOAN IMPAIRMENT AND PROVISIONS

In the past the Society originated a commercial loan book secured on property which has been in run-off for several years and some of these loans have impairment provisions. The Society continues to monitor and manage this portfolio carefully. In 2021 the Group had an impairment credit from this portfolio of £221,000 (2020: charge of £120,000).

FSCS LEVY

The Financial Services Compensation Scheme (FSCS) provides eligible savers with insurance against the failure of financial institutions up to a maximum level of £85,000 per institution.

The FSCS charges deposit-taking financial institutions levies based on their level of eligible deposits. The levies cover the administrative costs of the FSCS, shortfalls on the recovery of the loans of failed institutions and the cost of interest paid on loans supporting the compensation paid out to depositors until recoveries are made. More detail is given in Note 28 to the Annual Accounts. The charge has been decreasing in recent years. In 2021 there was no charge for the Society (2020: charge of £5,000).

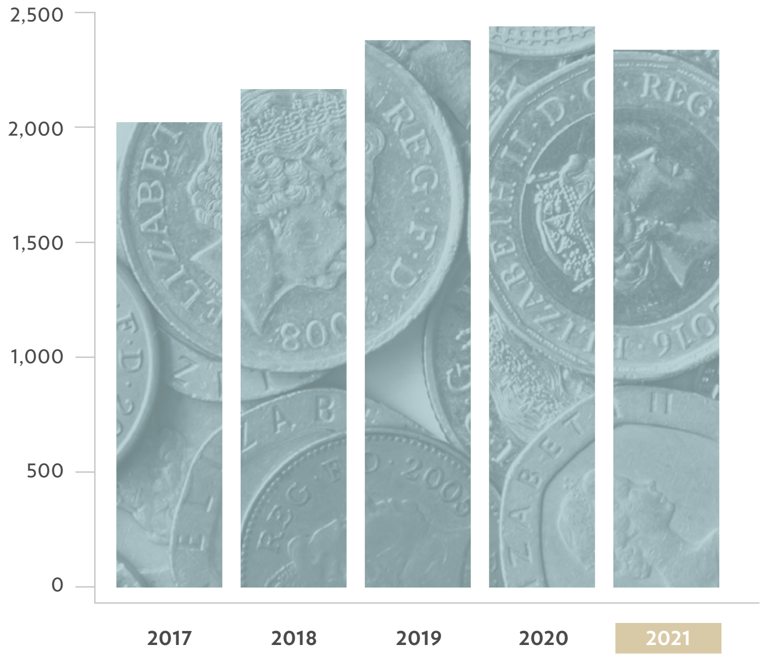
TAXATION

The Group corporation tax charge of £4.0 million (2020: charge of £1.1 million) represents an effective rate of 17.7% (2020: 14.7%). There are special tax provisions for the treatment of the FRS 102 transition adjustments and pension payments along with the expected utilisation of the tax losses which affect the timing of the amount of tax payable. Further detail is provided in Notes 11 and 12 to the Annual Accounts.

STATEMENT OF FINANCIAL POSITION

The Group balance sheet decreased in the year by 4.2%, which resulted in total assets of £2,338 million (2020: £2,439 million).

GROUP TOTAL ASSETS (£million)

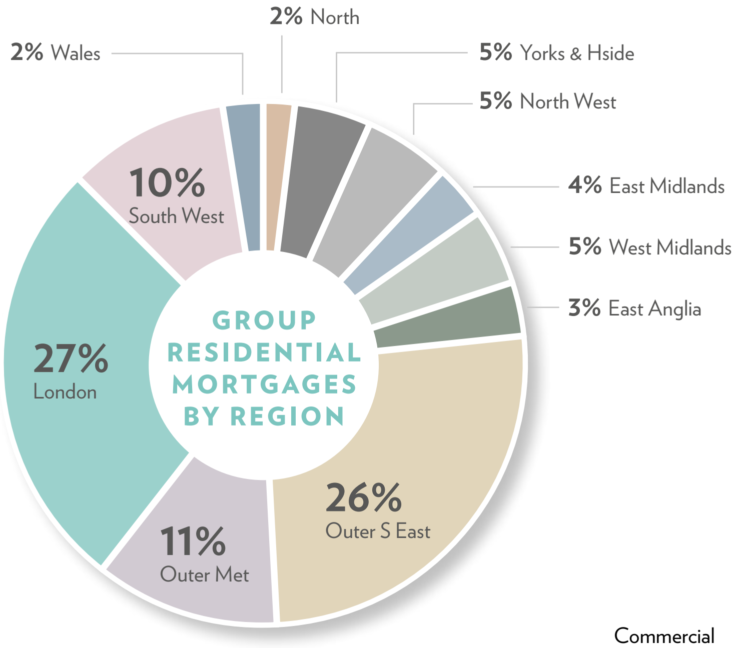


RESIDENTIAL LENDING

Total Group lending secured on residential property (FSRP) as at 31 December 2021 before fair value adjustments was £1,743 million (2020: £1,691 million). This represents a growth rate of 3%. Including the fair value adjustments from hedging, the figure was unchanged at £1,860 million (2020: 1,860 million).

This was achieved by the continuation of the Society's strategy of individually underwriting mortgages and providing innovative products. Marketing effectively to bring in new business, combined with strong levels of retention of existing borrowers i.e. who remain with the Society when their initial product term has expired, has delivered continued growth.

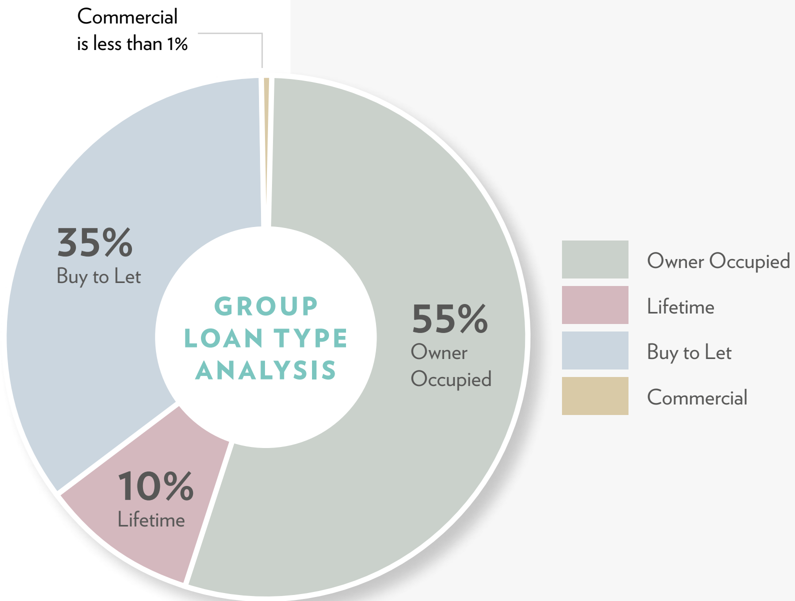
GROUP RESIDENTIAL MORTGAGES (£million)

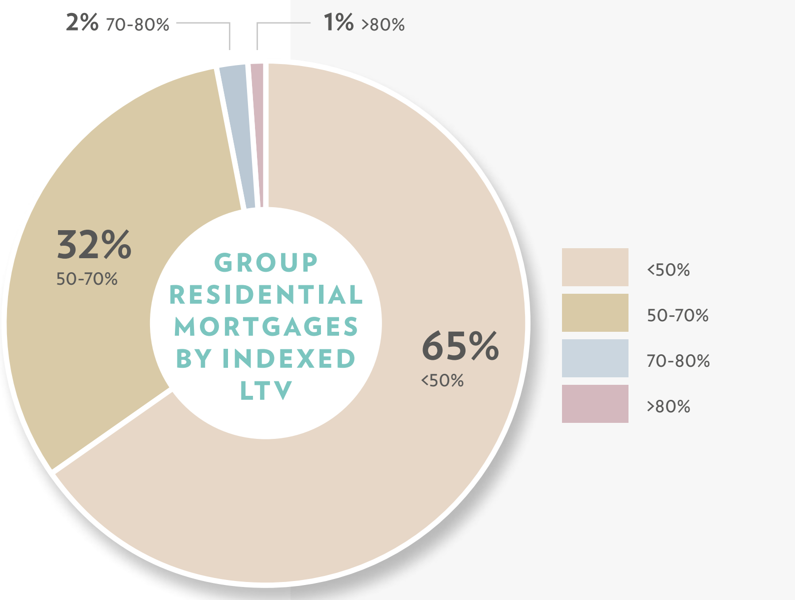


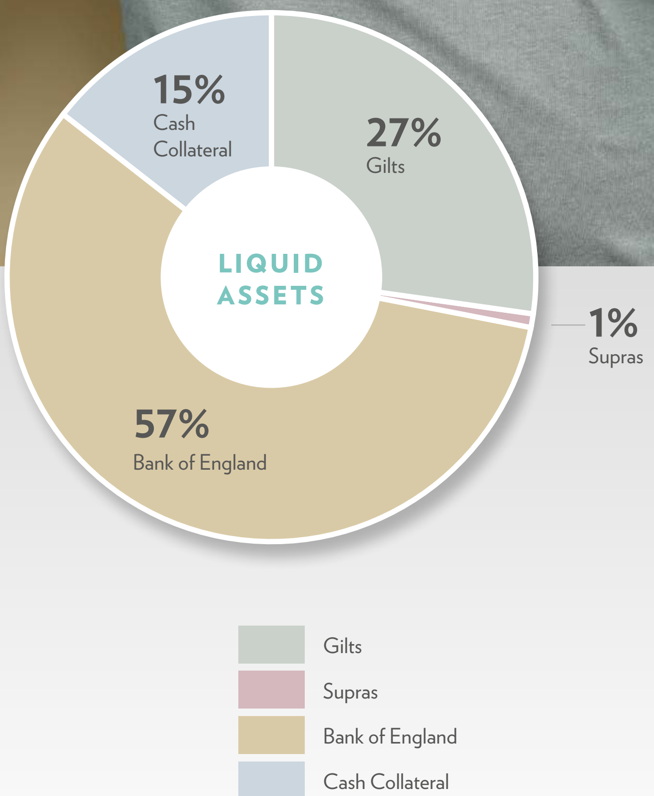
The Group's residential portfolio by geographic region is shown in the diagram above. Although the Society lends throughout England and Wales, there is a concentration towards the South East of England. The Society does not lend overseas, except in Guernsey (where it ceased lending in 2020) which is not significant and therefore does not feature in the diagram above.

The Society's residential lending is mainly to prime owner occupiers. We also lend to customers to fund Buy to Let properties. As with all the Society's lending, this is underwritten on an individual loan basis. The loan books that were purchased by our CHLM subsidiary are a mixture of Lifetime, Owner Occupied and Buy to Let mortgages.

The Society does obtain direct business and is able to advise customers when choosing a mortgage. Most of the lending however is sourced from mortgage intermediaries. The Society has traditionally had a conservative risk policy and has not sought to increase the level of risk in recent years to counter increased competition and to grow. This applies to both income cover levels and Loan to Value (LTV) levels. Clearly over time the value of some properties has decreased, which can lead to LTVs increasing on an indexed basis. The chart on the right shows the breakdown of LTV levels on the Group's residential mortgage book.







OTHER CUSTOMER LENDING

The Society does not carry out new commercial lending. It does, however, have a legacy book of loans secured on commercial property which is now in run-off and includes some loans transferred from a former subsidiary, before its sale. The net balance on these loans before fair value adjustments is £6.0 million (2020: £8.4 million).

LIQUID ASSETS

The Society maintains a portfolio of liquid assets in order to manage its liquidity risk in accordance with the Board's risk appetite and regulatory requirements. These assets are invested very conservatively and are available to meet the Society's payment obligations as they fall due.

The regulatory requirements for liquidity have been evolving since the financial crash and, under Capital Requirement Directives IV, the current key measure introduced in 2015 is the Liquidity Coverage Ratio (LCR). The Society's LCR at 31 December 2021 was 213% (2020: 231%) significantly above the regulatory minimum of 100%.

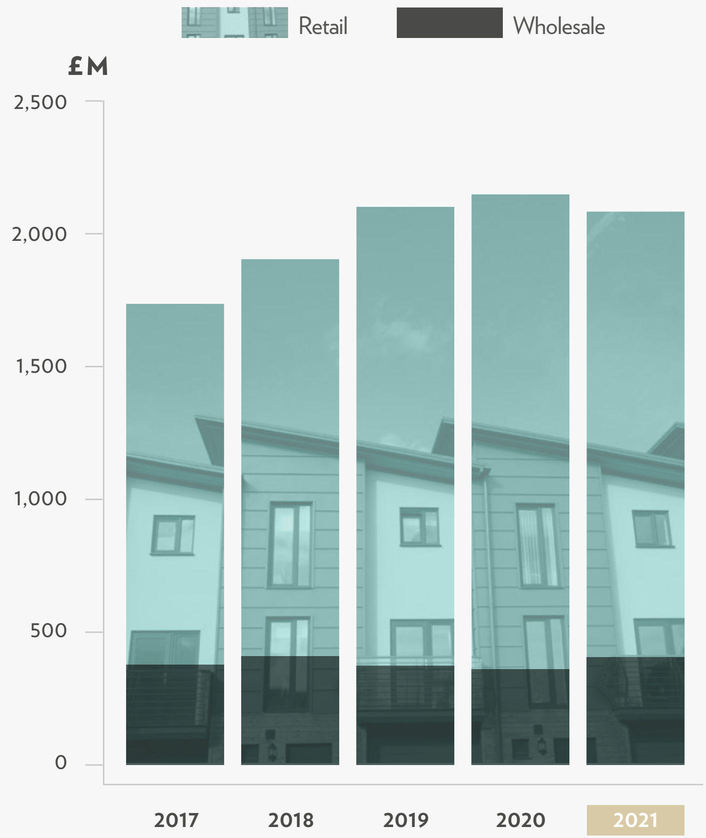
Total liquid assets at 31 December 2021 held by the Group were £441 million (2020: £549 million) and represented 19% (2020: 23%) of the Group's assets. As can be seen from the chart on the left, the assets are mainly held as cash deposited at the Bank of England and cash collateral supporting derivative transactions, UK Government debt (Gilts) and securities issued by AAA rated European multilateral development banks ('Supras') e.g. the European Investment Bank.

DEPOSIT BASE

The Society's traditional funding base consists of retail deposits from its Members and wholesale deposits from the money markets mainly via brokers. The Society has not issued any covered bonds or securitised bonds. The Society also uses Bank of England facilities such as the Term Funding Scheme (TFS) and Indexed Long-Term Repo (ILTR) for funding when appropriate. The Group has opted to participate in the new Term Funding Scheme with additional incentives for Small & Medium Enterprises (TFSME) launched by the Bank of England in response to the Covid-19 crisis. Access to these facilities also provides contingent liquidity for the Society. The growth in the deposit base is shown in the graph opposite.

This illustrates the success of the Society in attempting to offer consistently competitive rates on its savings accounts, bonds and ISAs, even in the current very low interest rate environment. The use of innovative products such as the FBS Windfall Bond and Market Trackers also helps attract solid funding.

GROUP DEPOSITS



CAPITAL

The Group's capital position is one of the key indicators of its financial strength and security. It reflects its ability to absorb shocks both to the sector as a whole and any specific shocks to the Society without putting it at risk of failure. Group capital as at 31 December 2021 stood at £133.7 million up from £116.5 million in 2020 and consists of reserves built up from the accumulation of profit plus the balance on the Available for Sale reserve. The Society has not issued Permanent Interest Bearing Shares or subordinated debt to the market. The level of reserves is also impacted by credits or charges for potential net liabilities under its defined benefit pension schemes which for 2021 was a credit of £0.7 million net of tax (2020: charge of £2.8 million).

The Group has grown its assets as noted above which increases the Group's regulatory capital requirement. The Society has a Common Equity Tier 1 ratio of 17.9% (2020: 15.9%).

The Society's Individual Capital Guidance from the PRA at the year-end was to hold a minimum amount of capital of 10.75% of Risk Weighted Assets plus a static add-on of £6.1 million. The Society's capital exceeded this requirement.

In assessing the Society's continued appetite to grow the Board is actively considering options to sensibly manage the Group's capital base. This may entail capital raising activity.

A further important regulatory metric is the leverage ratio, although this is not applicable to entities of our size. This is the ratio of regulatory capital to defined liabilities. The Group's leverage ratio at 31 December 2021 was 5.6% (2020: 4.7%).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

RISK MANAGEMENT STRATEGY & FRAMEWORK

The Society has adopted an Enterprise Risk Management Strategy and Framework which sets out the risk categories, governance framework and policies, risk appetites and supporting stress testing used to manage the Group's risks. This includes the establishment of triggers and limits, reporting lines, mandates and other control procedures.

The management of balance sheet exposures and the use of financial instruments for risk management purposes are contained within the Board-approved Liquidity Policy and Financial Risk Management Policy. Full details regarding the risks and the financial instruments used by the Group are given in Note 29 to the Accounts.

In addition Board members and function heads have been given individual responsibilities under the Senior Managers Certification Regime (SMCR) which is a regulatory requirement to ensure it is clear that an individual has specific responsibility for all the identified risks and functions.

RISK GOVERNANCE ARRANGEMENTS

The Board exercises governance over risk in the Group through Sub-Committees with Terms of Reference set by the Board. The Committees are:

- ***Group Audit Committee***
- ***Board Risk Committee***
- ***Remuneration Committee***
- ***Nomination Committee***

The members of these Committees are all Non-executives of the Board with the exception of the Nomination Committee on which the Chief Executive also sits. The Board approves policies containing the risk appetites, methodologies, monitoring and reporting requirements for material business activities. In particular the key policies relating to Lending, Liquidity and Financial Risk Management are reviewed at least annually and approved by the Board.

These Committees are supported by Executive Management Committees which report through to the Board Committees and have Terms of Reference approved by the Board or relevant Sub-Committee and act with delegated authority from the Board.

- ***Executive Management Committee***
- ***Executive Risk Committee***
- ***Retail Conduct Risk Committee***
- ***Asset and Liability Committee***

The Committees are supported by the Risk Oversight function, the head of which reports to the Chairman of the Board Risk Committee.

Further details of the Committees and their function are contained in the Report on Corporate Governance on pages 44 to 50.

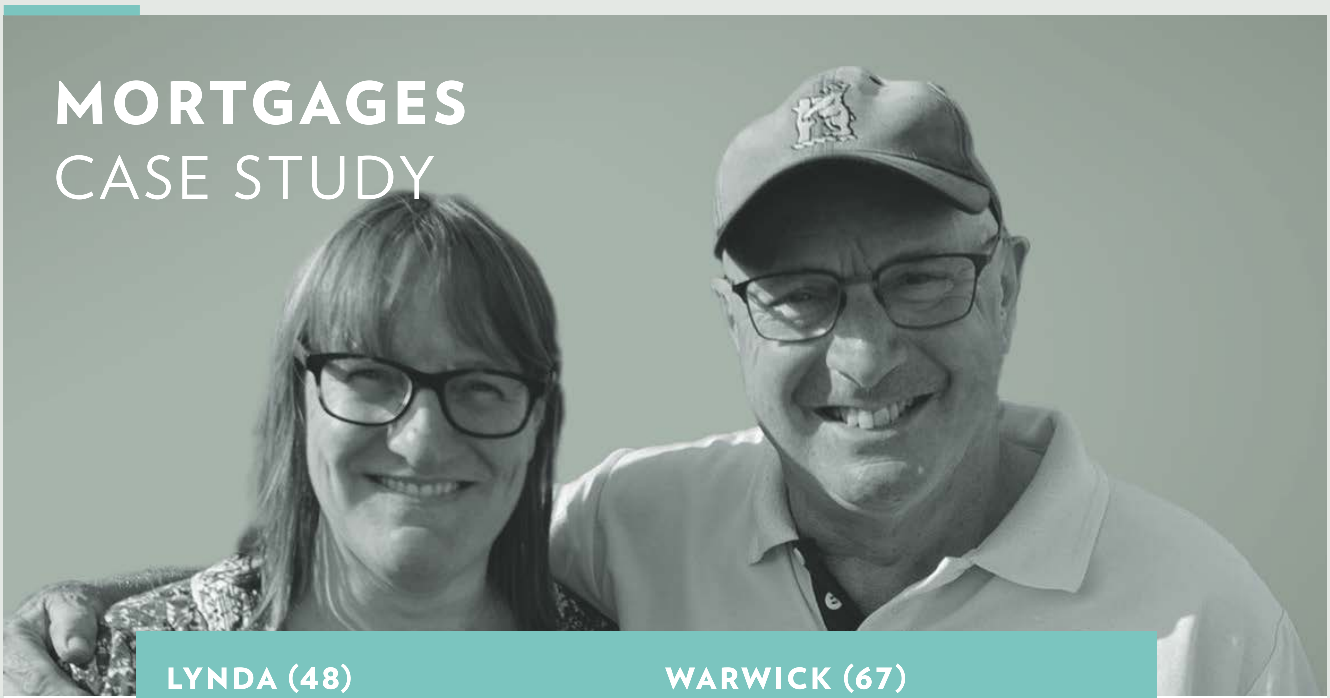
The Group maintains an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP). These are used to identify and quantify the risks faced by the Group and how those risks affect the levels of capital and liquidity that the Group is required to hold. Stress and reverse stress testing are employed separately, and as part of these processes, to ensure that the Group identifies and understands the extent of potential risks. The output is then used to decide the Group's risk appetite, objectives and limits and encapsulate them in the Financial Risk Management, Liquidity and Lending Policies to ensure that the Group operates within the parameters set by the Board. A Recovery Plan (RP), as required by the Bank of England, has also been prepared to illustrate and help deal with extreme stress situations. It does this by setting out the key risk triggers and limits and specifying the points at which specific actions can be taken by the Board to address and mitigate key stresses and return the Society to a stable situation.

In addition, the PRA carries out an annual assessment of the Society. Following these reviews, the PRA may issue revised capital and liquidity guidance. These specify the minimum amounts of capital and liquidity the Society must hold regardless of its own risk management assessments and appetites.

"I very much enjoy the family-oriented concept of the building society and their warm approach to their customers."

CUSTOMER COMMENT

MORTGAGES
CASE STUDY



LYNDA (48)
Administration Manager

WARWICK (67)
Gardener

In 2001, Warwick, Lynda and their two daughters moved into their forever home in Dousland. Lynda is the Administration Manager at a local care home which is less than one mile away from their home. Warwick has built up a very successful gardening round over the last ten years and most of his customers are within a two mile radius of their home.

In 2020, the couple decided they wanted to move their mortgage to a repayment only which would make their monthly payments more manageable.

Their current tracker rate mortgage with another lender was split partly interest-only and partly repayment that had a remaining term of only seven years. Whilst their 2.10% tracker was a very good rate, Warwick and Lynda wanted to convert the entire balance to a repayment mortgage with a far longer term, to make their monthly payments more manageable. Unfortunately, their lender wasn't able to do this.

The company was led by a 'computer says no' mentality, a lack of hands-on underwriting and because Warwick was aged 67, it made matters tougher. Their lender did eventually come back with a 12 year repayment mortgage but after six months of "pure torture, frustrations and sleepless nights", the couple were completely disillusioned with them and 'wanted out'.

Warwick had previously worked as a mortgage broker, and so he was aware of National Counties Building Society. After some research, he discovered that the Family Building Society are part of the same group. He was pleased to find out that we used "good old fashioned common sense with manual mortgage underwriting by 'grey haired underwriters' (apologies to Peter Cook!)".

"Professional, thorough and fair."

They first got in touch with our New Business Team on 15 July 2020 and submitted their application on 18 August 2020 with one of our Mortgage Advisers, Peter Cook. We offered them a 5 Year Fixed Rate repayment mortgage at 2.69% on a 20 year term to help them achieve their goal of having more manageable monthly payments. Warwick was very happy that the mortgage offer was given on 5 October 2020:

"In this day and age and in our humble opinion that is an excellent time scale, given Covid thrown in as well!"

"The 5 Year Fixed Rate repayment mortgage was ideal for us as it gave certainty for five years, with the option to review matters in five years time."

If they hadn't been able to get their mortgage with us, Warwick says they would have felt "extremely disappointed as our income, track record and bricks and mortar security were more than adequate."

If all else had failed they would have looked at Equity Release in five years time or looked to downsize their home – but neither of those options appealed to them at all.

"Our experience of dealing with the Family Building Society has been superb from start to finish. Very knowledgeable and experienced staff who know exactly what they are doing and are in the 'real world'."

"Family Building Society have the ability to deal with people as humans and not just a name and number on a file, realising that the decisions they make can well affect people's lives. They also have empathy towards their customers."

"We would certainly recommend the Family Building Society to friends and family for all the reasons above plus in our opinion they have a good/ competitive mortgage product range and manually underwrite, which we believe to be crucial these days."

To anyone in a similar situation, Warwick says, **"Be entirely open and honest and the Family Building Society will do all they can to assist you, providing it is within their lending policy."**

PRINCIPAL RISKS & UNCERTAINTIES

The principal risks and uncertainties facing the Group, and which are managed under the risk management framework, are noted below.

Each function is responsible for ensuring that risks are identified and managed and policies and processes complied with as the first line of defence.

The Society has a dedicated Risk Oversight function which is run by the Chief Risk Officer (CRO) and reports to the Board Risk Committee. It represents the second line of defence against loss for the Society. The Society also has a Compliance function which acts as the second line of defence overseeing conduct and regulatory risks. The CRO is responsible for maintaining oversight of all the Group's risks and these are reviewed regularly by the Executive Risk Committee. This Committee also reports to the Board Risk Committee, which comprises Non-executive Directors with specific responsibility to monitor risk management across the Group. This includes compliance with regulatory guidance in respect of lending, treasury and business conduct activity, as well as the ongoing update of the ILAAP, ICAAP and the RP.

The third line of defence is Internal Audit, which is outsourced to a major accountancy firm. Following a competitive tender in late 2016, Deloitte perform this role exclusively, overseen by the Group Audit Committee which consists of Non-executive Directors.

CREDIT RISK

Credit risk is the risk that a financial loss will arise from a customer or counterparty failing to meet their obligations or from a deficiency in the value of property held as collateral for a loan. This primarily arises from the Group's lending activities, which are mainly secured on property, and as a result of the Group's Treasury investments and transactions. This risk is mitigated by the Group's conservative lending and investment approach as prescribed in the Board-approved lending and liquidity policies. Most of the Group's non-customer lending is represented by securities issued in Sterling by AAA-rated Supras, Gilts and deposits with the Bank of England or UK financial institutions.

MARKET RISK

Market risk is the risk of loss through adverse movements in market rates which, for the Group, is mainly changes to, and relative movements in, interest rates. This risk is managed through a combination of natural hedges in the Group balance sheet and the use of derivative contracts, principally interest rate swaps, as permitted under the Financial Risk Management Policy approved by the Board. The Group is not directly exposed to foreign exchange risk as all its transactions are denominated in Sterling. Under FRS 102 movements in interest rates affect the balance sheet valuation of many financial instruments, particularly derivatives, and this increases the consequent risk of volatility in profits.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not have sufficient funds to meet its financial obligations as they fall due. This could arise for example as a result of imbalances in the cash flows of its activities. The amount of collateral the Society is required to pledge in support of its derivative hedging transactions can also have an adverse effect on the liquidity position. Liquidity Risk is mitigated through adherence to the Liquidity and Financial Risk Management Policies approved by the Board and by conducting an ILAAP, as required by the PRA. Consequently, the Society maintains a significant portfolio of highly liquid securities that may be sold or used as collateral in sale and repurchase (repo) transactions. This portfolio is supplemented by large call and overnight deposits with the Bank of England and UK clearing banks and with liquidity insurance facilities maintained at the Bank of England to ensure that the Group can meet all its financial obligations.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequacies, or failures, in the Group's internal processes and systems, or the actions of its staff. The Society has policies and processes to manage operational risk to ensure it remains within its risk appetite which is set by the Board.

Due to the increase in the volume and sophistication of actual and attempted frauds and cyber attacks directed against financial institutions, the Society recognises the increasing risk of financial and reputational loss and disruption from these activities. Whilst improvements in and the extended use of technology to benefit the Society's operations and products are essential, they add to the risk of criminal attack. The Society has therefore stepped up its defences with significant investment in this area. Reviews and enhancements to its operational controls to maintain their effectiveness are undertaken and advice sought and audits undertaken by specialists. Consequently, the Society has not suffered any material losses from fraud so far but remains vigilant.

CONDUCT RISK

Conduct risk is linked with regulatory risk noted below and Board expectations of the service levels that we provide to our customers. The Society's conduct record is very good, with low levels of complaints. All functions in the Society are responsible for ensuring the highest standards of conduct and regular training takes place to ensure that 'treating customers fairly' is embedded in the Society's culture. The Compliance function acts within the second line of defence and additional oversight is provided by the Retail Conduct Risk Committee. This has been established to oversee the Society's compliance with regulations affecting our customers and to ensure that the correct culture in terms of 'treating customers fairly' is adhered to and embedded in the Society. It is noted that the Society has a very low level of upheld complaints.

REGULATORY RISK

Regulatory risk is the risk of loss arising from failure to comply with statutory and regulatory requirements and the risk that the volume, complexity and cumulative effect of regulatory issues may impact the Society's ability to compete and function effectively. The amount of regulatory change from the many UK regulators who oversee the Society, principally the PRA and the FCA have caused us to increase the resources in this area. We actively monitor emerging regulation and plan ahead to ensure that we remain compliant. The Society has also implemented those parts of the PRA's ring-fencing requirements that were relevant to it, the Payment Systems Directive (PSD2), MIFID 2/ MIFIR and the General Data Protection Regulation (GDPR) during 2017 and 2018.

COVID-19

The principal uncertainty faced by the Group relates to Covid-19, its economic impact and the timing of recovery and a return to a new normal. During 2020 and 2021 the housing market has proved surprisingly resilient and early expectations that house prices might significantly fall proved to be misplaced. In the event house prices rose by as much as 16% in the last two years.

In common with other financial institutions the Society supported just over 1,000 of its Members with payment holidays as they needed them. By the end of 2021, only 5 Member's were still receiving forbearance assistance as a result of their payment holidays.

While it has been encouraging to see that our book of lending has proved remarkably resilient at this stage, a key risk is attached to the rate at which the economy recovers from Covid-19 and the impact this may have if future economic weakness results in growing levels of arrears or forbearance.

A key feature of the crisis so far has been the ready availability of liquidity and funding at low cost to support lending activities. How this cost of funding will develop is a key uncertainty. Access to the TFSME scheme significantly mitigates this risk and the Society is actively developing additional capability to further diversify our funding risk.

BREXIT

Our UK focus means that the most significant impacts from Brexit are likely to be seen from effects on the UK economy. Given the much larger impact from Covid-19, it is hard to meaningfully differentiate the specific risk now attached to Brexit for the Society however the Society's prudent lending at low LTV's, strong liquidity position, robust balance sheet and capital that we aim for mean that we believe that the Society is well placed to survive and thrive in the years ahead.

IBOR REFORM

As with all financial institutions, the Society has had to make preparations for the impact of the market wide reform of interbank offered rates (IBOR reform). Under the reform, LIBOR will not be sustained after the end of 2021. Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3 month LIBOR.

The Society has therefore completed a project during 2021 to transition away from LIBOR to using Sterling Overnight Index Average ("SONIA") as the reference rate for the variable leg of swaps. This transition was achieved through the cessation of the use of LIBOR swaps for new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and the replacement of existing LIBOR swaps that extended beyond the end of 2021 with new SONIA based swaps.

CLIMATE CHANGE

The Society also recognises the risks and challenges posed by climate change. Although the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. We particularly recognise two risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of properties mortgaged for Buy to Let purposes. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Society monitors the loans portfolio for specific climate risks and uses this information to inform the key risk management processes such as the ICAAP. The Finance Director has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Risk Committee.

During 2020 we commissioned an independent expert analysis of the Society's carbon footprint. The conclusion was that it is relatively small and we have signed up to a carbon offset scheme to become carbon neutral. We recognise however that offsetting emissions is not enough and in 2021 took steps to further reduce our carbon footprint.

LOAN PERFORMANCE

Changes in the economy potentially have a mixed impact on the credit risk of the Group's mortgage and commercial loans, despite the strict criteria that the Group applies to all of its lending operations. A stressed economy, particularly high unemployment levels, may increase arrears and defaults on loans. In the medium term interest rates may rise which becomes more likely if inflation increases further. This could lead to fresh affordability issues. These concerns are factored into our underwriting process which is based on individual case assessment by experienced personnel, low LTVs and the affordability requirements of the regulators.

The Society monitors the payment performance of its existing loan book very closely and proactively contacts borrowers in the event of any potential difficulties so that the Society can try and help alleviate the situation. Instances of arrears in payments are followed up promptly and the full range of forbearance options is considered. These usually include either a temporary reduction in the monthly repayment amount, temporary transfer of the mortgage to interest-only terms or an extension of the term. These actions, designed primarily to assist borrowers facing short-term difficulties, are taken after an individual assessment of the case has been undertaken to ensure that the action is in the best interests of both the borrower and the Society. In some instances foreclosure can result in a better outcome for the borrower than temporary help.

Forbearance is also taken account of in the exercise designed to highlight impaired loans and determine appropriate, prudent loss provisioning. This is covered by a specific policy on forbearance.

"Information is always well communicated without financial jargon."

CUSTOMER COMMENT

During 2020, as a consequence of the impact of Covid-19, the Group offered its Members payment holidays of up to 6 months on their mortgage payments and just over 1,000 of our Members took the option. During the period of the payment holiday, these Members were not treated as being in arrears and by the 2020 year end, less than 50 of our Members were still on a payment holiday with the majority of the others resuming payments. Less than 20 Members were offered formal forbearance after the end of the payment holiday as they were unable to resume payments and at the end of 2021 only 5 borrowers are still receiving forbearance assistance.

LIFETIME MORTGAGES

There are a number of risks and uncertainties in respect of the Group's Lifetime Mortgage portfolio that may affect its performance and ultimate recoverability. As a result of the NNEGs noted above, a reduction in mortality/morbidity levels or a reduction in HPI or an increase in its volatility or a lack of maintenance of the underlying property could result in increases to the NNEG valuation. The NNEG valuation is also subject to movements in long term interest rates.

The NNEGs are treated as an embedded derivative under FRS 102, see Note 2.

The Group has hedged some of the risks relating to its Lifetime Mortgage portfolios with an interest rate derivative, the notional value of which varies with the underlying amount of the mortgages. It is subject however to maximum and minimum boundary amounts. The Lifetime Mortgages have pre-paid more quickly than expected so that the value of the portfolio was lower than the minimum boundary at times. This had an adverse effect on the effectiveness of the hedge and resulted in a charge to the income statement. Assumptions regarding the future prepayment levels can also affect this valuation. The Society acted during the year to restructure its hedging arrangements and lower the boundary. The assumptions underlying the projections of the Lifetime Mortgages and swap valuations may turn out not to be right. Changes in interest rates also affect the value of the ineffectiveness and these factors can cause profit volatility. The level of interest rates also affects the amount of collateral required to support derivative transactions. The higher the collateral level the more funding is required to maintain adequate liquidity which represents a cost to the Society. The Society monitors the risks associated with the lifetime portfolios and their hedging carefully and will take mitigating action where appropriate.

OTHER UNCERTAINTIES

The Society pays levies to the FSCS as explained in the Directors' Report and Note 28. Levies will continue to be made in future years in order to pay the Scheme's liabilities. The levy will vary depending on the interest rate charged by the Government to the FSCS, as well as the Society's share of total deposits covered by the FSCS. Should further financial institutions fail and the FSCS covered losses increase, further levies would become payable. The future FSCS cost is therefore uncertain.

The Society has a funding obligation for 'The Pensions Trust 2016 - National Counties Building Society Pension and Life Assurance Scheme', a separate trustee-administered defined benefit pension scheme. This obligation gives rise to the risk that additional funding may be required should the value of the Scheme's assets, together with ongoing employer and member contributions, be insufficient to cover the accrued scheme member benefits. A full actuarial valuation is carried out by a qualified independent actuary every three years and the latest of these was as at 30 September 2020. The scheme surplus at this year end was £115,000 (2020: deficit of £4.8 million).

The surplus is a consequence of an additional contribution by the Society to the Scheme of £4.5 million in December 2021 along with a higher discount rate used in the valuation of the pension liabilities at the year end compared to 2020. The Board will continue to monitor the funding of the Scheme to ensure that they continue to meet the Pension Ombudsman's requirements to remove any deficit over time, either through higher monthly contributions or lump sum payments.

In order to reduce the exposure to further actuarial risks, the Society decided to cease further accrual in the final salary part of the scheme from May 2013, with all employees being eligible for the hybrid cash benefit part of the scheme instead. In January 2015, the Society closed this remaining part of the scheme to new employees, who are eligible instead for a cash contribution scheme which does not present any future actuarial risk for the Society.

The Society is also subject to general business risk from economic uncertainty and competition from existing and new entrants to the sector and key-man risk.

Andrew Barnard
Group Finance Director
3 March 2022

MORTGAGES CASE STUDY

MRS GRICE
Retired

MR GRICE
Mechanical Design Engineer

Mr and Mrs Grice were coming to the end of their existing Interest-Only mortgage and they didn't have the funds to pay off the capital, so they had a decision to make on what to do next. As they saw it, they had three options available:

1) Sell the house and use the equity to relocate
2) Take out an equity release policy and remain in their home for the rest of their lives
3) Take out a new interest-only loan, which would allow them to continue living in their home for a further period of time, thus delaying the decision of whether to relocate or remain.

Option 1 was not a great option, as Mr Grice's elderly mother lived close by, and he was often required to help his mother who needed support due to her poor health. If they had to sell up and relocate, that may have meant moving further away, so they quickly ruled out this option.

There were also draw backs to Option 2, as an equity release would have tied them to their current property, which was a decision that they were not ready to take at that point in time.

In the end, their preferred option was to seek a new Interest-Only mortgage. This would allow the Grices to defer their decision on where they might have to live, if not close by, to a later date when family commitments were no longer a factor.

Having settled on their preferred option, Mrs Grice did a Google search for "Interest-Only mortgage providers", and then she reviewed the various lenders to try to find one that would offer mortgages which would extend past the normal retirement age.

At the time, Mr Grice was aged 65 and his wife was aged 63, so they had problems finding lenders who would offer a mortgage to suit their circumstances due to their age. Thankfully, they came across the Family Building Society, and they were pleased to discover that we offer mortgages up to age 90, so their age would certainly not be an issue with us.

The Grices also contacted a local mortgage broker to see if there were other options available, but in the end the broker agreed that the Family Building Society would provide them with their best solution.

"We were very impressed from our first contact, through the entire application process, after the mortgage offer was made and the redemption process. We'd describe the Family Building Society as professional, friendly and patient, and we'd gladly recommend them to anyone looking for a mortgage, not just those aged 65 or over."

The Grices had a lot of problems with the previous lender during the redemption process, "either through their incompetence or what seemed like willful obstruction". This meant that the process dragged on for weeks and months. So much so that they feared that Family Building Society might lose patience and withdraw their mortgage offer.

"We were most grateful to Noreen Chada who was so understanding throughout, and persevered to finally get the redemption statement which we needed. We would also like to thank Peter Cook who guided us through the application process, and every member of the Family Building Society organisation we came into contact with who were always helpful, professional, and polite."

"We were most grateful to Noreen Chada who was so understanding throughout, and persevered to finally get the redemption statement which we needed."

Directors' Report

THE DIRECTORS HAVE PLEASURE IN PRESENTING THEIR ANNUAL REPORT, TOGETHER WITH THE ANNUAL ACCOUNTS AND ANNUAL BUSINESS STATEMENT OF THE SOCIETY AND ITS SUBSIDIARY UNDERTAKINGS (THE GROUP) FOR THE YEAR ENDED 31 DECEMBER 2021.

INFORMATION ON THE GROUP'S STRATEGY AND BUSINESS REVIEW IS CONTAINED IN THE STRATEGIC REPORT, CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REVIEW.

ASSETS & LIABILITIES

The Group total assets at 31 December 2021 were £2,338 million (2020: £2,439 million).

Total loans and advances to customers at the year-end were £1,866 million (2020: £1,869 million). At 31 December 2021, a total provision of £0.6 million, comprising £0.4 million individual impairment and £0.2 million collective (2020: £1.2 million, comprising £0.7 million individual impairment and £0.5 million collective), was made in the Annual Accounts for possible credit losses. Mortgage arrears are detailed in the Strategic Report.

Liquid assets amounted to £441 million at the year-end (2020: £549 million), representing 21% (2020: 26%) of total shares and borrowings and 19% (2020: 23%) of total assets of the Group. Changes in tangible fixed assets during the year are detailed in Note 17a to the Accounts and in intangible fixed assets in Note 17b.

Savers' share balances totalled £1,661 million at 31 December 2021 (2020: £1,766 million) and deposits by credit institutions and other customers amounted to £421 million at the year-end (2020: £383 million), representing 20% (2020: 18%), of total shares and borrowings.

PROFIT & CAPITAL POSITION

The Group operating profit before impairment losses and provisions was £21.9 million (2020: £7.6 million). After impairment losses and provisions, the Group profit before tax was £22.5 million (2020: £7.4 million). The Group profit for the year after tax was £18.5 million (2020: £6.3 million).

The Group's capital position is represented by general reserves and the Available for Sale (AFS) reserve. Group gross capital at 31 December 2021 amounted to £133.7 million, an increase from 2020's £116.5 million. Gross capital represented 5.7% (2020: 4.8%) of Group total assets at the year-end, or 6.4% (2020: 5.4%) of total shares and borrowings. Group free capital (i.e. capital plus collective impairment provisions, less tangible and intangible fixed assets) amounted to £126 million at the end of the year (2020: £109 million), equivalent to 6.0% (2020: 5.1%) of total shares and borrowings. A key indicator of the Group's capital strength is its Common Equity Tier 1 capital ratio. At 31 December 2021 this ratio stood at 17.9%, (2020: 15.9%).

PAYMENTS TO SUPPLIERS

The Society is committed to maintaining good relationships with its suppliers and its practice has and will continue to be, to pay invoices within 14 days of receipt. The amounts owed to trade creditors at 31 December 2021, as a proportion of the amounts invoiced by suppliers during the full year, was equivalent to six days (2020: five days).

PRINCIPAL RISKS & UNCERTAINTIES

The principal business risks to which the Group and Society are exposed are credit, market, liquidity, operational, conduct and regulatory. To the extent that these risks are affected by the UK's economic position and the impact of Brexit and Covid-19 over the next few years is a key consideration.

Further explanation and details of the approach the Board takes to managing these risks can be found in the Strategic Report on pages 16 to 34.

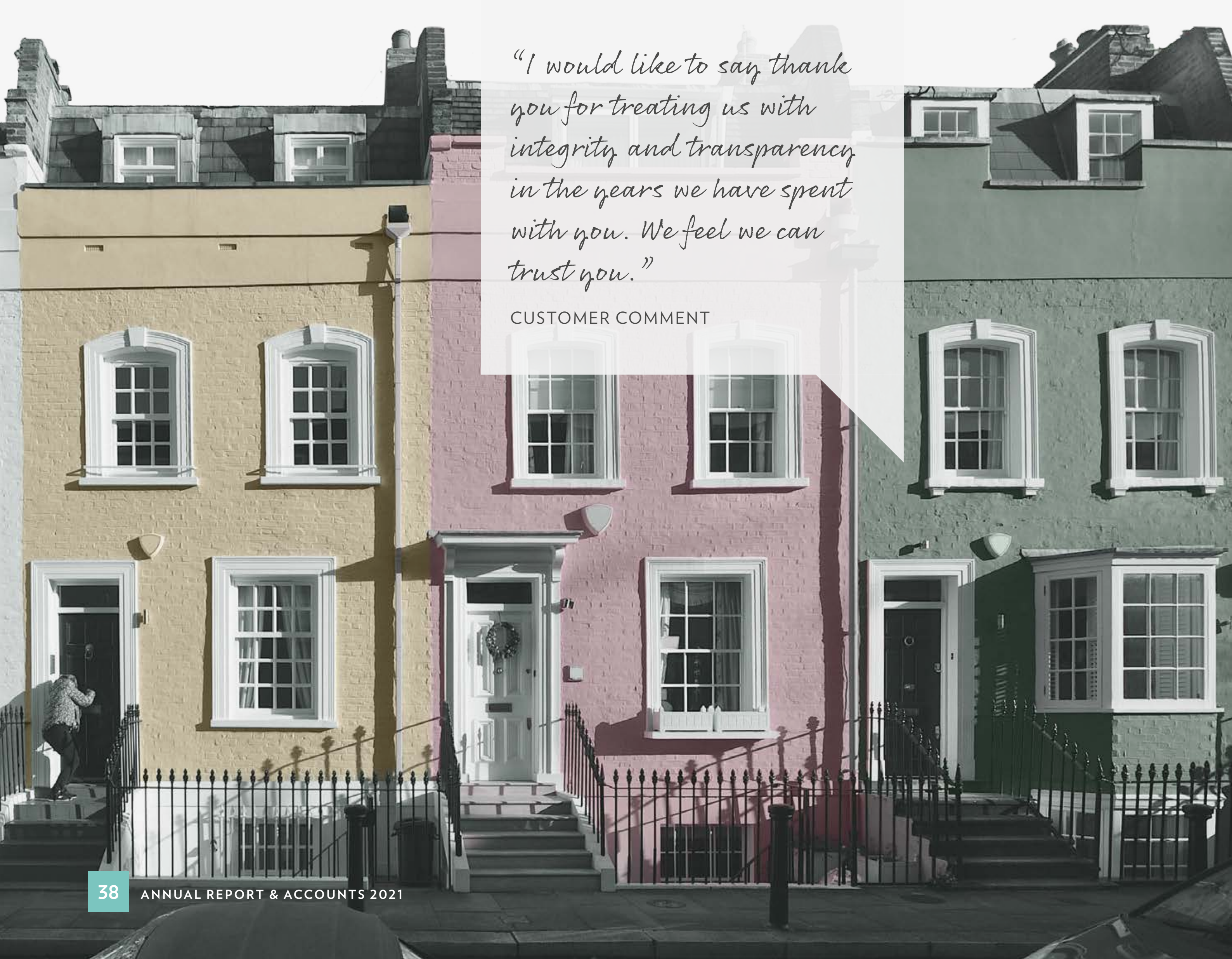
CORPORATE GOVERNANCE

The Society's approach to corporate governance is covered in the Report on Corporate Governance on pages 44 to 50. The Directors' responsibilities are set out on pages 56 and 57. The Society's charitable donations and work are set out in the Corporate and Social Responsibility section of the Chief Executive's Review on page 14. No political donations were made in 2021 (2020: nil).

PILLAR 3 & COUNTRY-BY-COUNTRY REPORTING

The disclosures required under EU Directives for Pillar 3 risk reporting will be published on the Society's website. The requirements for Country-by-Country Reporting are disclosed in Note 32.

Full details relating to the Society's Directors can be found in the Annual Business Statement.



"I would like to say thank you for treating us with integrity and transparency in the years we have spent with you. We feel we can trust you."

CUSTOMER COMMENT

In accordance with the requirements of the Corporate Governance Code, to which the Society has due regard, all the Society's Directors, with the exception of Fiona Crisp, are seeking re-election to the Board.

In summary, the following Directors served during 2021:

- ***Rodger Hughes***
  (appointed Non-executive Director 2013)
- ***Patrick Muir***
  (appointed Non-executive Director 2015)
- ***Andrew Barnard***
  (appointed Executive Director 2018)
- ***Mark Bogard***
  (appointed Executive Director 2012)
- ***Chris Croft***
  (appointed Executive Director 2014)
- ***John Cole***
  (appointed Non-executive Director October 2019)
- ***Fiona Crisp***
  (appointed Non-executive Director 2015)
- ***Susan Sharrock Yates***
  (appointed Non-executive Director 2020)
- ***Simon Wainwright***
  (appointed Non-executive Director 2015)

At the end of the year, no Director had a beneficial interest in any shares or debentures of any connected undertaking of the Society.

GOING CONCERN

The Society's and Group's business activities and objectives, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's Review on pages 8 to 14 and the Strategic Report on pages 16 to 34. The financial and capital position of the Society and principal risks and uncertainties are described earlier within this Report and in the Strategic Report. The Society's position in respect of liquidity risk and other financial risks is shown in Note 29 to the Accounts.

The Group and Society meet their day-to-day liquidity requirements through managing both their retail and wholesale funding sources and are comfortably in excess of their regulatory capital requirements. The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. This assessment was based on forecasts prepared by the Group, which incorporated severe but plausible downside scenarios to stress test impacts on capital requirements and liquidity taking into account the PRA published stress test scenario for building societies not participating in the annual concurrent stress test, which includes the Society, published in February 2021. The Society's stress tests include stresses to short and longer term interest rates, margin, house prices and a tightening of the unsecured wholesale funding market. Even after combining these stresses the Society continued to exceed its all-in regulatory capital requirement which is derived from stress tests considered to be at least as severe as the Bank of England scenario published in February 2021. Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of least 12 months from the date of approval of these financial statements. Therefore, they continue to adopt the going concern basis of accounting in preparing the Annual Accounts.

AUDITOR

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

It is proposed that KPMG LLP are re-elected as the Society's auditor at the AGM in April 2022.

POST BALANCE SHEET EVENTS

In the Directors' opinion, no post balance sheet events have occurred since the year-end that would have a material effect on the financial position of the Group as disclosed in the Annual Accounts.

Rodger Hughes
Chairman
3 March 2022

Group Audit Committee Report

THE GROUP'S AUDIT COMMITTEE IS A SUBCOMMITTEE OF THE BOARD AND CONSISTS OF NON-EXECUTIVE DIRECTORS. IT IS CHAIRED BY JOHN COLE AN EX-EY PARTNER AND SIMON WAINWRIGHT, FIONA CRISP, AND PATRICK MUIR ARE MEMBERS. IT IS ATTENDED BY THE EXECUTIVE DIRECTORS, OTHER NON-EXECUTIVE DIRECTORS AND THE EXTERNAL AND INTERNAL AUDITORS WHERE APPROPRIATE.

Having only Non-executive Directors as members ensures the independence of the Committee. Following a competitive tender process in late 2016 for both internal and external audit work, the Society appointed KPMG as External Auditor and Deloitte as its Internal Auditor. The latter enhances the independence and skill set of the audit function compared with employing our own audit staff. Both KPMG and Deloitte have formally confirmed their independence for the year.

The Committee's purpose is to monitor the activities of the Internal Audit function to ensure that controls are in place and effective and to make recommendations to the Board upon any issues of concern. It also considers and reviews the findings arising from External Audit control and systems work and reviews, prior to approval by the Board, the final Annual Report and Accounts, Directors' Report and Summary Financial Statement.

The full Terms of Reference of the Committee can be found on the Society's website.

The Committee is required to self-assess its performance during the year. It is content that it has operated effectively, met its Terms of Reference and has the appropriate resources and experience of the financial sector to perform its role.

INTERNAL AUDIT

The Committee reviews the proposed Internal Audit programme of work regularly and as well as ensuring a balanced set of audits is performed across the whole business on a three-year cycle, it focuses the team on any particular areas of concern or attention that it would like audited. This includes any areas that the Society's regulators have identified specifically or across the sector as requiring review.

At each Committee the internal audit reports completed in the period are reviewed and management's responses challenged. If necessary the Executive are required to follow up further on issues identified.

The Committee appoints and removes the Internal Auditors and monitors their performance. It also agrees their fees for the year.

The Committee has considered Deloitte's overall internal audit report for 2021 and is content with the conclusions. It is also content with Deloitte's independence and performance during the year and they have confirmed that they have sufficient resources to undertake their role.

EXTERNAL AUDIT

The Committee also recommends the appointment and removal of the External Auditors, subject to approval by Members at the Annual General Meeting and monitors their performance and agrees their fees for the year. It also agrees any non-audit work carried out by the External Auditors to ensure there is no conflict of interest.

The Committee meets with the External Auditors to discuss key areas of significance and concern throughout the year. KPMG's views are considered together with the Committee's and the Executive's so that all the areas which should be given more focus and audited in more depth are identified, included in the audit plan and subsequently reviewed in more detail. These areas for 2021 are noted below. Any other findings and any management letter points are also reviewed and challenged.

The Committee has considered KPMG's interim audit report and final memorandum of findings for 2021 and is content with the conclusions and management's responses. It is also content with KPMG's independence and performance during the year.

FINANCIAL REPORTING

When producing the management and statutory financial statements, it is essential that they are produced in accordance with the applicable accounting standards, particularly in the Society's case, FRS 102 and IAS 39. The Accounting Policies need review to ensure that they are still applicable and challenged if necessary. It is also important that the Annual Report contains balanced, understandable information for Members to assess the performance of the Society and its strategy, business model and governance. The Committee is satisfied that the 2021 Annual Report and Accounts do so and that the accounting policies are appropriate. In preparing the accounts a number of significant judgments, assumptions and estimates need to be made. These are noted in Note 2 of the Annual Report and Accounts. They are discussed with management and the External Auditors and for 2021 the following items were given particular attention.

LIFETIME MORTGAGES

The Group has a legacy portfolio of Lifetime Mortgages (LMs) with a book value at the year end of £163 million (2020: £173 million). It has a swap with a variable notional value which was taken out to hedge the LMs through their life against movements in market interest rates. The hedge accounting is complex with the expected cash flows generated by a model, in the absence of appropriate observable market data, which has longevity, morbidity, interest rates, future drawdowns and voluntary repayments as inputs. The Committee has reviewed and challenged the assumptions and treatment of the LM hedge accounting and is content with them.

The LMs also have a no negative equity guarantee (NNEG) included in their terms. For accounting purposes under IAS 39, this is treated as a derivative and must be fair valued with movements taken to the Income Statement. The valuation of the NNEG included with the Statement of Financial Position of £13.5 million (2020: £19.3 million), depends on expected future loan balances which are driven by actuarial mortality and morbidity assumptions, voluntary repayment assumptions, interest rates on the loans, predicted property sale costs and assumptions for long term house price movements and volatility. The Committee has reviewed and challenged the appropriateness of all the assumptions that underpin the valuation of the NNEG and have agreed the assumptions made are reasonable.

“Good traditional customer service.”

CUSTOMER COMMENT

HEDGE ACCOUNTING

The Society adopts hedge accounting in accordance with IAS 39 where it uses interest rate swaps to hedge the risk of changes in interest rate risk. This reduces the volatility through the Income Statement from valuations of the swaps. It is used for its main residential mortgage portfolio, for its asset swapped gilts, its legacy commercial lending portfolio and its Lifetime Mortgage portfolio. The fair value ascribed to these net liabilities in the Statement of Financial Position is £85 million (2020: £147 million).

The Committee considered the appropriateness of the hedging arrangements and processes and agreed them and that they had been applied in accordance with IAS 39.

PROVISIONS

The Group makes provisions against loans that have suffered impairment as at the balance sheet date but not yet crystallised in accordance with IAS 39. These are either individual or collective. This involves making assumptions about default rates, emergence periods and loss given default rates.

At 31 December 2021 the Group had total impairment provisions of £0.6 million (2020: £1.2 million) – see Note 10a of the Annual Report and Accounts for more detail. Provisions against the LMs are effectively covered by the valuation of the NNEG instead of a provision.

The Committee reviewed and challenged the level of impairment provisions and the assumptions used in their calculation and is content with the outcome.

REVENUE RECOGNITION

Income and expenditure are recognised in accordance with the accounting policies and standards with accruals and prepayments made to allocate it to the correct accounting period. One area that relies significantly on assumptions and estimations is with the application of Effective Interest Rates (EIR). The intention is to spread the overall interest and fees received and paid on lending and borrowing over the expected life of the loan by adjusting the effective interest rate accordingly. This mainly applies to fees received and paid on mortgages and assumptions have been made about the expected lives of the mortgages based on behavioural analysis. At the year end, the Society had a deferred net asset of £2.8 million (2020: £2.4 million) and the Group had a deferred net asset of £3.6 million (2020: £3.3 million) which were included in the balance sheet.

The Committee reviewed the assumptions and estimates made, including the redemption profiles, and agreed the judgments made were reasonable.

INVESTMENT PROPERTY

In 2018 the Society entered into a partnership with Arden & Sons Limited, to acquire, refurbish and let property to residential tenants. The investment properties of £10.6 million (2020: £9.8 million) are included within the Statement of Financial Position using independent open market valuations provided by a suitably qualified RICS surveyor.

The Committee considered the appropriateness of the valuations and are content with the outcome.

PENSIONS

The Group operates a defined benefit pension scheme. A full actuarial valuation is performed by a qualified independent actuary every three years and the last actuarial valuation was carried out as at 30 September 2020. Following the results of that valuation, the Board of the Society agreed to make a £4.5 million additional contribution to the Scheme in December 2021.

The Group's pension scheme obligation included within the Statement of Financial Position is based on the results of the last actuarial valuation rolled forward to the reporting date to take account of the passage of time, the accrual of new benefits for active members, membership movements, actual revaluation of deferred benefits, expected benefits paid out of the Scheme and changes in actuarial assumptions between 30 September 2020 and 31 December 2021. The figure included within the Statement of Financial Position at 31 December 2021 is a surplus of £115,000 (2020: deficit of £4.8 million).

The Committee reviewed and challenged the assumptions used in calculating the pension scheme obligation included with the Statement of Financial Position and agreed the judgements made were reasonable.

GOING CONCERN

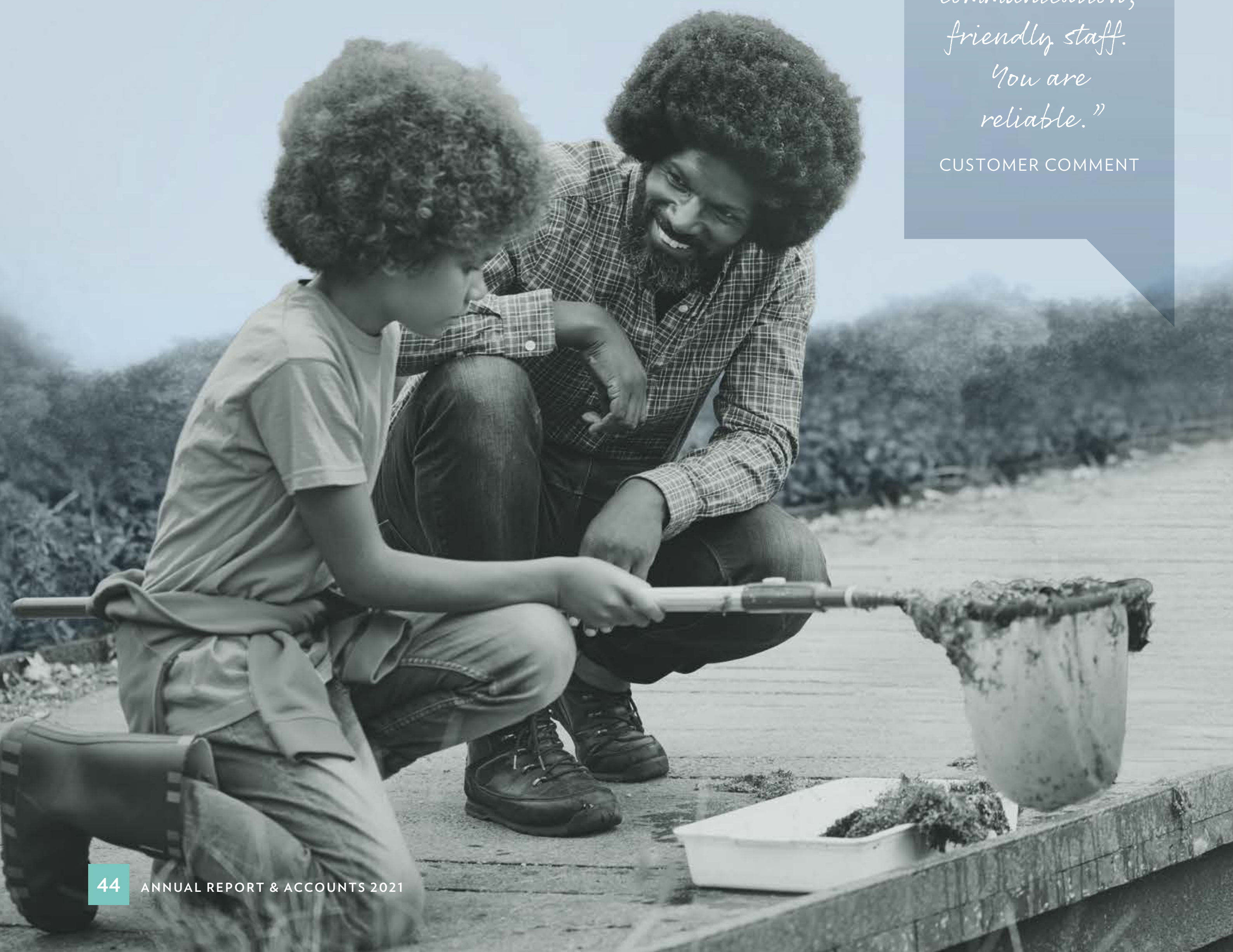
The Committee has reviewed management's assessment of its viability for the foreseeable future as noted in the Directors' Report on page 39 and its assessment of the impact of Covid-19 and Brexit on the UK economy and housing market as noted in the Strategic Report on pages 16 to 34 and agrees with their opinion that the Group is a going concern and that is the appropriate basis for preparing the Annual Report and Accounts.

John Cole
Chairman, Group Audit Committee
3 March 2022

Report on Corporate Governance

THE BOARD IS COMMITTED TO BEST PRACTICE IN CORPORATE GOVERNANCE. THIS REPORT EXPLAINS HOW THE SOCIETY HAS REGARD TO THE PRINCIPLES IN THE UK CORPORATE GOVERNANCE CODE ISSUED BY THE FINANCIAL REPORTING COUNCIL IN JULY 2018 (THE CODE), WHICH IS THE PREVAILING GUIDANCE FOR THE YEAR COVERED BY THIS REPORT.

> *"Excellent communication, friendly staff. You are reliable."*
>
> CUSTOMER COMMENT



BOARD LEADERSHIP AND COMPANY PURPOSE

CODE PRINCIPLE A.1:

A: A SUCCESSFUL COMPANY IS LED BY AN EFFECTIVE AND ENTREPRENEURIAL BOARD, WHOSE ROLE IS TO PROMOTE THE LONG-TERM SUSTAINABLE SUCCESS OF THE COMPANY, GENERATING VALUE FOR SHAREHOLDERS AND CONTRIBUTING TO WIDER SOCIETY.

B: THE BOARD SHOULD ESTABLISH THE COMPANY'S PURPOSE, VALUES AND STRATEGY, AND SATISFY ITSELF THAT THESE AND ITS CULTURE ARE ALIGNED. ALL DIRECTORS MUST ACT WITH INTEGRITY, LEAD BY EXAMPLE AND PROMOTE THE DESIRED CULTURE.

C: THE BOARD SHOULD ENSURE THAT 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.

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.

E: THE BOARD SHOULD ENSURE THAT WORKFORCE POLICIES AND PRACTICES ARE CONSISTENT WITH THE COMPANY'S VALUES AND SUPPORT ITS LONG-TERM SUSTAINABLE SUCCESS. THE WORKFORCE SHOULD BE ABLE TO RAISE ANY MATTERS OF CONCERN.

SOCIETY'S APPROACH

The Society's Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Society within an effective control framework which enables risk to be assessed and managed. The Board has responsibility for ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Group operates within the Society's constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

The Board reviews the Society's strategy and the sustainability of the Society's business model on a regular basis and each year holds a meeting focussed solely upon reviewing the long-term strategy and sustainability of the Society's business model.

The Board assesses and monitors the Society's culture through a combination of key performance indicators which are reported quarterly and subject to internal audit.

The Board has a formal schedule of matters which are reserved for its consideration at its meetings and it has established four Committees to consider specific issues in greater detail, being the Group Audit, Board Risk, Remuneration and Nomination Committees. The Terms of Reference for each of these Committees are published on the Society's website.

GROUP AUDIT COMMITTEE

The Group Audit Committee meets at least four times each year and comprises four Non-executive Directors, currently John Cole (Chairman), Simon Wainwright, Fiona Crisp and Patrick Muir. The Chairman of the Board, the Executive Directors and representatives from the internal and external auditors attend by invitation. Its role is described more fully below.

More details relating to the role of the Group Audit Committee can be found in the Group Audit Committee Report on pages 40 to 43.

BOARD RISK COMMITTEE

The Board Risk Committee comprises four Non-executive Directors, currently Simon Wainwright (Chairman), Fiona Crisp, John Cole and Susan Sharrock Yates. The Executive Directors, the Chief Risk Officer and the Operational Risk Manager attend by invitation. The Committee meets at least four times a year and is responsible for reviewing the Society's risk management framework as described later.

REMUNERATION COMMITTEE

The Remuneration Committee usually meets at least three times a year and comprises three Non-executive Directors, Patrick Muir, Simon

Wainwright and Rodger Hughes, with the Chief Executive and the Group Secretary attending by invitation. It is currently chaired by Patrick Muir and is responsible for determining the remuneration of all Executive Directors and functional Directors and for oversight of the remuneration policies within the Society. It also sets the additional payments for the Chairman of the Board, the Chairmen of the Group Audit, Remuneration and Board Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration. More detail relating to the role of the Remuneration Committee can be found in the Report on Remuneration on pages 52 to 55.

NOMINATION COMMITTEE

The Nomination Committee, which meets at least once a year, is comprised of the Society's Chairman (Rodger Hughes), the Senior Independent Director (Patrick Muir) and the Chief Executive. It is chaired by Rodger Hughes and is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Executive and Non-executive Director succession planning, the appointment of new Directors and the election and re-election of Directors. It is responsible for reviewing diversity policy within the Society and making recommendation about any imbalances.

STAKEHOLDER ENGAGEMENT

The Society canvasses Members' views through informal engagement with Members, through an annual survey of all Members, through focus groups on specific strategic issues and through discussion at the Annual General Meeting. Specific market research is also undertaken on new product initiatives.

The Society has a number of channels to engage with the workforce. Aside from informal contact, the Society conducts workforce satisfaction surveys. Regular focus groups are held on matters relevant to the workforce. Both the Society's internal auditors and the Human Resources Department have conducted reviews of internal culture. The Society has set up a staff forum to enable feedback from staff. In addition to whistleblowing procedures, the Board has appointed a Non-executive Director to take specific responsibility for workforce engagement and to provide a conduit for staff to raise concerns.

DIVISION OF RESPONSIBILITIES

CODE PRINCIPLES:

F: THE CHAIR LEADS THE BOARD AND IS RESPONSIBLE FOR ITS OVERALL EFFECTIVENESS IN DIRECTING THE COMPANY. THEY SHOULD DEMONSTRATE OBJECTIVE JUDGMENT THROUGHOUT THEIR TENURE AND PROMOTE A CULTURE OF OPENNESS AND DEBATE. IN ADDITION, THE CHAIR FACILITATES CONSTRUCTIVE BOARD RELATIONS AND THE EFFECTIVE CONTRIBUTION OF ALL NON-EXECUTIVE DIRECTORS, AND ENSURES THAT DIRECTORS RECEIVE ACCURATE, TIMELY AND CLEAR INFORMATION.

G: THE BOARD SHOULD INCLUDE AN APPROPRIATE COMBINATION OF EXECUTIVE AND NON-EXECUTIVE (AND IN PARTICULAR, INDEPENDENT NON-EXECUTIVE) DIRECTORS, SUCH THAT NO ONE INDIVIDUAL OR SMALL GROUP OF INDIVIDUALS DOMINATES THE BOARD'S DECISION MAKING. THERE SHOULD BE A CLEAR DIVISION OF RESPONSIBILITIES BETWEEN THE LEADERSHIP OF THE BOARD AND THE EXECUTIVE LEADERSHIP OF THE COMPANY'S BUSINESS.

H: NON-EXECUTIVE DIRECTORS SHOULD HAVE SUFFICIENT TIME TO MEET THEIR BOARD RESPONSIBILITIES. THEY SHOULD PROVIDE CONSTRUCTIVE CHALLENGE, STRATEGIC GUIDANCE, OFFER SPECIALIST ADVICE AND HOLD MANAGEMENT TO ACCOUNT.

I: THE BOARD, SUPPORTED BY THE COMPANY SECRETARY, SHOULD ENSURE THAT IT HAS THE POLICIES, PROCESSES, INFORMATION, TIME AND RESOURCES IT NEEDS IN ORDER TO FUNCTION EFFECTIVELY AND EFFICIENTLY.

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information.

At the year end, the Board comprised Six Non-executive Directors (including the Chairman) and three Executive Directors. All Non-executive Directors are considered by the Board to be independent in character and judgement and to have an appropriate balance of skills and experience. They are all also considered to be free of any relationship or circumstances which could materially interfere with the exercise of their judgement, impede the provision of constructive challenge to management and provide assistance with the development of strategy. The Vice Chairman is designated to be the Senior Independent Director, to act as a sounding board for the Chairman and an intermediary for the other Directors when necessary. The Board and the Nominations Committee consider the overall Board skills and are satisfied as to the overall balance of skills which was endorsed by the last external review of board effectiveness referred to below. The Society also maintains a Board Skills matrix to record the skills and experience of the Directors which is reviewed from time to time. In addition, the Society makes available skills training to the Directors on relevant regulatory and technical matters. Each Board Member has a written responsibility statement.

Attendance of Directors at the Board and its committees during 2021 is shown in the table opposite, with the total number of meetings each Director was eligible to attend shown in brackets.

DIRECTOR	BOARD	AUDIT	RISK	REMUNERATION	NOMINATION
Rodger Hughes	12 (12)			4 (4)	1 (1)
Patrick Muir	12 (12)	4 (4)		4 (4)	1 (1)
John Cole	12 (12)	4 (4)	4 (4)		
Fiona Crisp	12 (12)	4 (4)	4 (4)		
Simon Wainwright	12 (12)	4 (4)	4 (4)	4 (4)	
Susan Sharrock Yates	12 (12)		4 (4)		
Mark Bogard	12 (12)				1 (1)
Chris Croft	12 (12)				
Andrew Barnard	11 (12)				

"Layout and information given on year end statements and ISA Accounts – Excellent."

CUSTOMER COMMENT

The Chairman ensures that the Board receives accurate, timely and clear information in a form and of sufficient quality to enable it to fulfil its responsibilities, with a review being undertaken by the full Board at least annually. The scope and content of management information presented to the Board is subject to regular assessment and to internal audit. All Directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board on governance matters.

COMPOSITION, SUCCESSION AND EVALUATION

CODE PRINCIPLES

J: APPOINTMENTS TO THE BOARD SHOULD BE SUBJECT TO A FORMAL, RIGOROUS AND TRANSPARENT PROCEDURE AND AN EFFECTIVE SUCCESSION PLAN SHOULD BE MAINTAINED FOR BOARD AND SENIOR MANAGEMENT. BOTH APPOINTMENTS AND SUCCESSION PLANS SHOULD BE BASED ON MERIT AND OBJECTIVE CRITERIA AND, WITHIN THIS CONTEXT, SHOULD PROMOTE DIVERSITY OF GENDER, SOCIAL AND ETHNIC BACKGROUNDS, COGNITIVE AND PERSONAL STRENGTHS.

K: THE BOARD AND ITS COMMITTEES SHOULD HAVE A COMBINATION OF SKILLS, EXPERIENCE AND KNOWLEDGE. CONSIDERATION SHOULD BE GIVEN TO THE LENGTH OF SERVICE OF THE BOARD AS A WHOLE AND MEMBERSHIP REGULARLY REFRESHED.

L: ANNUAL EVALUATION OF THE BOARD SHOULD CONSIDER ITS COMPOSITION, DIVERSITY AND HOW EFFECTIVELY MEMBERS WORK TOGETHER TO ACHIEVE OBJECTIVES. INDIVIDUAL EVALUATION SHOULD DEMONSTRATE WHETHER EACH DIRECTOR CONTINUES TO CONTRIBUTE EFFECTIVELY.

The Society's Rules require that all Directors are submitted for election at the AGM following their first appointment to the Board, except where their appointment occurs in the period between the end of the Society's financial year and the AGM itself, in which case they must seek election at the AGM in the following year. The Board has also agreed that in line with the recommendations of the Code, all Directors should seek re-election every year. The Board's policy with regard to maintaining the independence of Non-executive Directors is that they can normally expect to serve between 6 and 9 years, with the exception of the Chairman who may serve a maximum of 12 years. These terms may be extended if the Nomination Committee is satisfied that the relevant Director continues to make a particularly valuable contribution and remains independent. The Nomination Committee is responsible for recommending to the Board whether an individual should be submitted for re-election. Appointments lasting beyond six years are subject to particularly rigorous annual review, reflecting the need for progressive refreshment of the Board.

The Nomination Committee which comprises the Chairman, the Senior Independent Director and the Chief Executive undertakes the assessment of the balance of skills, experience, independence and knowledge on the Board against the requirements of the business, with a view to determining whether any shortages exist. Having completed the assessment, the Committee makes recommendations to the Board accordingly. Appointments to the Board are made on merit, with due regard to the benefits of diversity. Candidates for Non-executive Directorship are identified in a variety of ways as determined by the Nomination Committee, including the use of recruitment specialists, notification in the Society's periodic newsletters to customers and through press advertisements. All new Directors also normally require approval by the Prudential Regulatory Authority and the Financial Conduct Authority, and their appointment is subject to such approval. Directors who do not hold specific Senior Management Functions may only be subject to notification to the PRA and the FCA in which case their appointment is subject to such notification.

All new Directors undergo formal induction with any training or development needs being identified during this process and in the course of the annual performance evaluations referred to below. Directors continue to attend external and internal seminars and presentations to maintain and update their knowledge and skills and the Society has introduced e-Learning programmes for Directors. Directors are required to complete certain modules which the Society considers appropriate and necessary to the requirements of the Society business and regulatory regime.

A formal internal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board and its Committees. The Non-executive Directors are evaluated by the Chairman, taking into account the views of other Directors, and the Chairman is evaluated by the Vice Chairman, as Senior Independent Director, also having regard for the views of the other Directors. The Chief Executive's appraisal is conducted by the Chairman, after taking into account the views of other Directors and his immediate subordinates and the Chief Executive appraises the other Executive Directors again taking into account other Directors' views.

In accordance with the Code provisions applicable to larger companies, an external evaluation of the Board, its Committees and the Directors should be carried out every three years. The Board had an external evaluation carried out by BP&E Global which was presented to the Board in 2020. The Board has been reviewing and implementing any relevant recommendations. It is anticipated that another external review will be commissioned in 2023.

AUDIT, RISK AND INTERNAL CONTROL

CODE PRINCIPLES

M: THE BOARD SHOULD ESTABLISH FORMAL AND TRANSPARENT POLICIES AND PROCEDURES TO ENSURE THE INDEPENDENCE AND EFFECTIVENESS OF INTERNAL AND EXTERNAL AUDIT FUNCTIONS AND SATISFY ITSELF ON THE INTEGRITY OF FINANCIAL AND NARRATIVE STATEMENTS.

N: THE BOARD SHOULD PRESENT A FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT OF THE COMPANY'S POSITION AND PROSPECTS.

O: THE BOARD SHOULD ESTABLISH PROCEDURES TO MANAGE RISK, OVERSEE THE INTERNAL CONTROL FRAMEWORK, AND DETERMINE THE NATURE AND THE EXTENT OF THE PRINCIPAL RISKS THE COMPANY IS WILLING TO TAKE IN ORDER TO ACHIEVE ITS LONG-TERM STRATEGIC OBJECTIVES.

The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Members to assess the Society's performance, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Society's accounts are set out on pages 56 to 57. The Chief Executive's Review, Strategic Report and the Directors' Report on pages 8 to 39 provide a detailed review of the Society's business activities and future prospects and include the statement that the Directors consider that the business is a going concern.

The Board is responsible for determining a framework for risk management and control, to include the Group's risk appetite and tolerance. Senior management are responsible for designing, operating and monitoring risk management and internal control processes in line with the risk appetite and tolerance while the Group Audit and Board Risk Committees, on behalf of the Board, are responsible for reviewing the adequacy and effective operation of these processes. The role of the Group Audit Committee is described below, while that of the Board Risk Committee is to provide the Board with independent assurance that the Group is operating specifically in accordance with the risk appetite parameters determined and approved by the Board and to ensure that the outcomes for the Group's various activities are in line with those parameters. The system of internal control overall is designed to enable the Group to achieve its corporate objectives within the Board's pre-determined risk appetite, not to eliminate risk. The internal audit function, now undertaken by Deloitte LLP, provides independent and objective assurance that these processes are appropriate and effectively applied.

At the end of the year the Group Audit Committee comprised four Non-executive Directors. The Chairman of the Board is not a member of the Committee but may attend by invitation. The Board is satisfied that the Committee is comprised of members with recent relevant financial experience who are capable of discharging its duties and responsibilities. The role of the Committee is to review the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, Audit Committee Report and Strategic Report and to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the Members) the appointment or re-appointment of the external auditor. The Committee reviews and monitors the external auditor's objectivity, competence, effectiveness and independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence. An annual assessment of the external audit is carried out. The Society has a policy on the provision of non-audit services by the external auditor which is overseen by the Audit Committee. No material non–audit services are provided by the external auditor.

The activities of the Group's internal audit function, which is undertaken by Deloitte LLP, are overseen by the Group Secretary but the firm has direct access to the Committee Chairman.

The Report on Remuneration, prepared by the Chairman of the Society's Remuneration Committee, is to be found on pages 52 to 55 and explains how the Society complies with the Code Principles relating to remuneration. Details of Directors' Emoluments during 2021 can be found in Note 9 to the Accounts.

As a mutual body, the Society does not have institutional shareholders but has a membership composed exclusively of individuals, all of whom are also customers of the Society. Periodic customer newsletters are produced and mailings undertaken to ensure that Members are kept informed of developments, with reaction and feedback encouraged. Communication with Members is also increasingly undertaken through the Society's websites. The Senior Independent Director is the point of contact for Members if for any reason they feel communication with the Chief Executive or Chairman is inappropriate.

Each year the Society sends details of the AGM, including appointment of a proxy and voting forms, to Members who are eligible to vote. Consistent with the Code, the AGM voting forms include a 'Vote withheld' option. The Society's normal practice is that a poll is called in relation to each resolution at the AGM and all proxy votes cast are included in the voting results which are published subsequently on the Society's website. All members of the Board are normally present at the AGM each year and the Chairmen of the Board and its four Committees are therefore available to answer any questions. For the last two years, the Society was unable to hold a physical meeting due to "lockdown" and the Coronavirus pandemic, but access was made available to all members online and online voting was available during the meeting. All members of the Board were present virtually and all members proxy votes counted, and the results published. Members were invited to send in questions online and a summary of the questions and the responses were also published. This year it is anticipated that the AGM will be held in person in the normal way. Precise details will be sent to members with the notice of AGM.

Rodger Hughes
Chairman
3 March 2022

MORTGAGES CASE STUDY

PHIL (31)
Telecoms Engineer

EMILY (33)
Senior Administration Officer

First time buyers

Having rented for years, Emily (33) a Senior Administration Officer and Phil (31) a Telecoms Engineer, were keen to finally buy their first property together. They didn't have a huge deposit saved but hoped it would enable them to afford a place of their own in their hometown of Southampton.

They were house hunting during the Covid-19 pandemic, when many lenders were pulling their higher Loan to Value (LTV) mortgages from the market, particularly affecting first time buyers and those with smaller deposits. When Emily and Phil did find a mortgage product for the house they wanted, it was pulled before they could get a mortgage offer.

"Unfortunately, we did not have a big deposit saved so we were finding a lot of lenders very restricting."

A family affair

Emily's dad Paul, who works as a researcher at the same mortgage broker being used by the couple, was aware of our Family Mortgage, which was eventually identified as a potential option.

At that point, Emily and Phil had not considered a family assisted mortgage. The Family Mortgage can help buyers with a low deposit to purchase a property using security provided by their family, without the need for a gift or loan. The buyer just needs a minimum of 5% deposit (which can be wholly gifted), and their family can provide additional security by using their savings or a charge on their own property.

The Family Mortgage allowed Paul and his wife to use some of the value in their own home as security for their daughter's mortgage. This meant they were able to help their daughter and her partner buy a nice, terraced house without having to make a substantial withdrawal from their savings.

"We were very pleased to be able to do this, as it provided a viable option for my daughter and her partner to buy a nice house rather than having to settle for a flat."

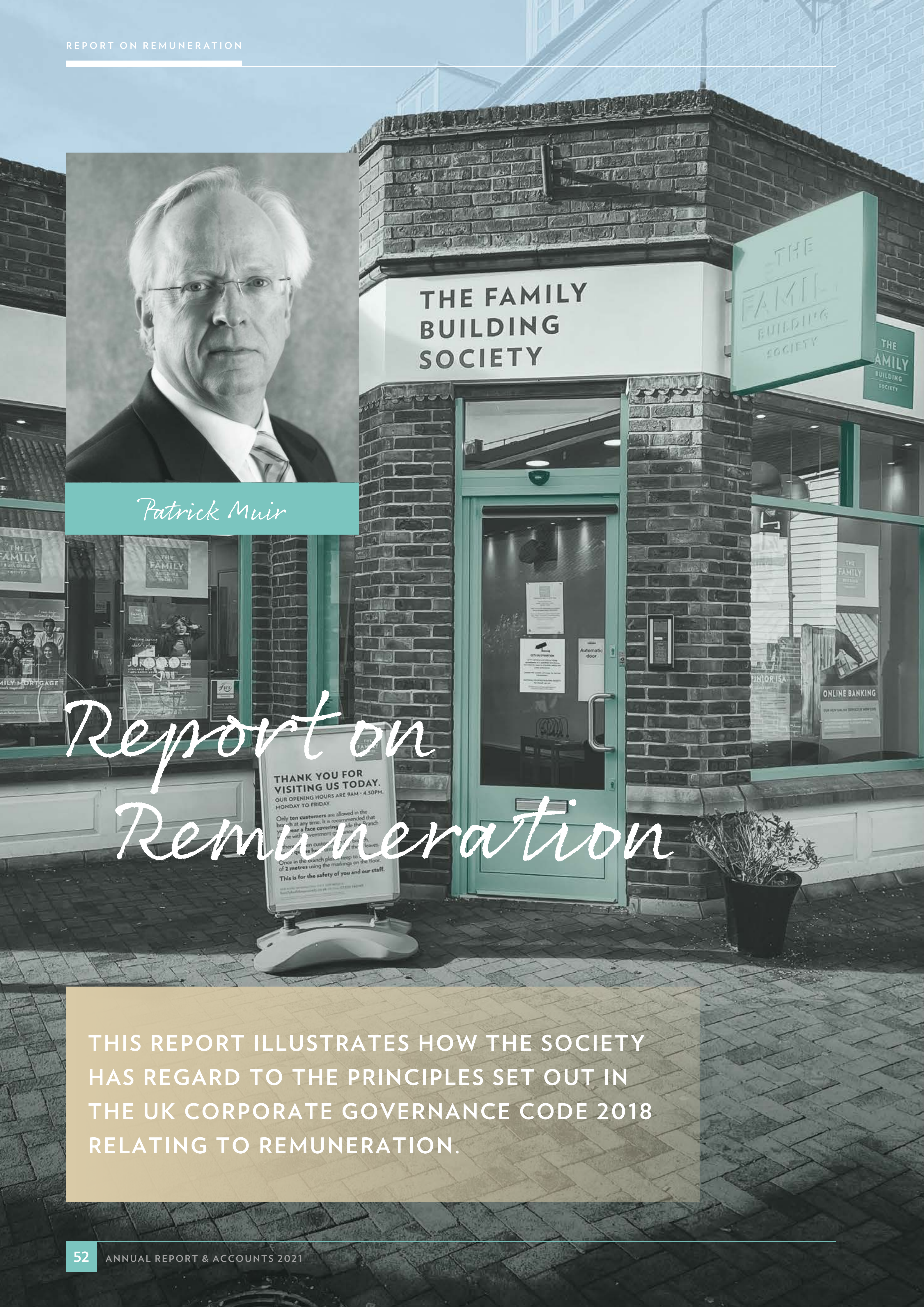
At the Family Building Society, we look at each application on a case by case basis. With their parents providing security, the couple were able to borrow the amount they needed at a rate they could afford, to secure the home they wanted. The Family Mortgage made sense and provided an effective solution.

"It's a great option that allows your family to assist you. I'm unsure whether other family assisted mortgages would have been suitable or provided us with the same rate. We would recommend the Family Building Society for people in similar situations, where they are unable to save huge deposits due to the increased cost of living such as rent."

The alternative for Emily's parents would have been to help their daughter find a substantially larger deposit.

"The Family Building Society provided a solution to a rather difficult problem."

"It's a great option that allows your family to assist you."



Patrick Muir

Report on Remuneration

THIS REPORT ILLUSTRATES HOW THE SOCIETY HAS REGARD TO THE PRINCIPLES SET OUT IN THE UK CORPORATE GOVERNANCE CODE 2018 RELATING TO REMUNERATION.

The Society has adopted a Remuneration Policy, which describes how the Society complies with the relevant sections of both the Prudential Regulation Authority's and the Financial Conduct Authority's Remuneration Code. This Policy is reviewed periodically by the Remuneration Committee. It was reviewed by the Committee in 2020. The Policy Statement is published on the Society's website. The remuneration details of individual Directors are set out in Note 9 to the Accounts, which should be read in conjunction with this report.

REMUNERATION POLICIES

CODE PRINCIPLE P:

REMUNERATION POLICIES AND PRACTICES SHOULD BE DESIGNED TO SUPPORT STRATEGY AND PROMOTE LONG TERM SUSTAINABLE SUCCESS. EXECUTIVE REMUNERATION SHOULD BE ALIGNED TO COMPANY PURPOSE AND VALUES, AND BE CLEARLY LINKED TO THE SUCCESSFUL DELIVERY OF THE COMPANY'S LONG TERM STRATEGY.

SOCIETY'S APPROACH

The Board has established a Remuneration Committee, which comprises three Non-executive Directors, Patrick Muir, Rodger Hughes and Simon Wainwright and is chaired by Patrick Muir. All of the Non-executive Directors are considered to be independent. Patrick Muir has been Chairman of the Remuneration Committee since 2016. The Remuneration Committee is responsible for setting the remuneration of the Executive Directors. The Committee also sets the additional payments for the Chairman of the Board, the Chairmen of the Group Audit, Remuneration and Board Risk Committees and the Senior Independent Director, with Committee members not taking part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Executive Directors. Minutes of the Committee's meetings are distributed to all Board members, and the Chairman of the Committee reports at the Board meeting following a Committee meeting.

The Remuneration Committee is also responsible for oversight of the remuneration and reward structure for the Society as a whole. The Committee's Terms of Reference are published on the Society's website.

The Board believes that all employees should be fairly rewarded for their efforts. The aim of the Society's Remuneration Policy is therefore to achieve a fair level of financial reward for the Society's staff whilst avoiding incentives to take inappropriate levels of risk. Against this background the objectives of the Remuneration Policy include the following:

- ***To attract and retain staff with the appropriate skills, attitude and motivation.***
- ***To reward staff fairly, paying due regard to the statutory duties of equality and non-discrimination.***
- ***To benchmark salaries and benefits against prevailing industry/sector/role norms.***
- ***To take account of prevailing economic and employment trends.***
- ***To prevent inappropriate risk-taking with the potential to damage the interests of the Society's stakeholders and the viability of the business.***
- ***To ensure that remuneration is aligned with the Society's strategy, purpose and values and is linked to successful delivery of that strategy.***

"The customer service and personal interest came across very much as though it was a genuinely interested person looking after us and explaining things to us."

CUSTOMER COMMENT

In line with the Board's approach, the Society's remuneration policy provides for the reward of Executive Directors through salaries and other benefits. The current overall package includes performance related pay which is linked both to individual performance and to delivery of the Society's strategy, further details of which are set out below.

PROCEDURES FOR DEVELOPING REMUNERATION POLICY

CODE PRINCIPLE Q:

A FORMAL AND TRANSPARENT PROCEDURE FOR DEVELOPING POLICY ON EXECUTIVE REMUNERATION AND DETERMINING DIRECTOR AND SENIOR MANAGEMENT REMUNERATION SHOULD BE ESTABLISHED. NO DIRECTOR SHOULD BE INVOLVED IN DECIDING THEIR OWN REMUNERATION OUTCOME.

SOCIETY'S APPROACH

The Remuneration Committee in determining policy for Executive Director remuneration and remuneration of senior management undertakes a review of the overall remuneration and incentive packages for the workforce of the Society as a whole. In addition it takes into account salaries and benefits in the sector and the nature of the commitments and responsibilities associated with the role. As with staff generally, whose salaries are subject to annual reviews, basic salaries payable to Executive Directors are reviewed periodically with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Society's geographical position. As noted in last year's report, the decision was made in the light of the coronavirus pandemic, to defer the pay review in April 2020 and a further decision was made in November 2020 to award a flat 1.5% pay rise to all Executive Directors and staff with effect from the 1st December 2020. In April 2021, taking account of all the circumstances and the continuing pandemic, a further flat 1.5% pay rise was awarded to all Executive Directors and staff with effect from the 1st May 2021.

The previous Medium Term Incentive plan (MTIP) for Executive Directors expired in 2020 and it was decided by RemCo in 2020 that in the circumstances it was not practical to implement a new 3 year plan based upon specified criteria given the uncertain outlook. Instead, it was decided to make a performance assessment at the end of the year. Given the continuing uncertainty, the Remuneration Committee has adopted a similar approach this year. An MTIP amount has been awarded for 2021 based upon the Society's performance over the year as measured by five Key Performance Indicators: Customer satisfaction, Capital growth, Maintaining profit, Loan growth and Culture. The sums awarded have been accrued in the year end accounts and payments will be split equally and paid out in two annual payments in 2022 and 2023. Executive Directors are eligible to receive other taxable benefits including a car or car allowance and healthcare provision for themselves and their immediate family, standard professional body subscriptions and travelling and subsistence expenses are also met.

In the light of the continuing exceptional performance of the Society's staff in extremely difficult circumstances the Remuneration Committee decided that performance pay awards on a similar basis to last year should be awarded to all Executive Directors and staff. These awards are assessed on the basis of individual performance and payable in cash. Details of the awards to Executive Directors are set out note 9 to the accounts.

No Executive Director has any involvement in determining their own pay.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Non-executive Directors do not receive any benefits other than their fees and travelling and training expenses for which they may be reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations. In recognition of the increased responsibility associated with the roles, additional fees are paid to the Chair of the Board Sub-Committees and the Senior Independent Director. Non-executive Directors' fees were increased by 1.5% from 1st May 2021 in line with increases awarded to Society staff. This increase was recommended by the Executive Directors in accordance with the Society's Remuneration Policy as noted below.

No Non-executive Director has any involvement in determining their own pay.

INDEPENDENT JUDGEMENT

CODE PRINCIPAL R:

DIRECTORS SHOULD EXERCISE INDEPENDENT JUDGEMENT AND DISCRETION WHEN AUTHORISING REMUNERATION OUTCOMES, TAKING ACCOUNT OF COMPANY AND INDIVIDUAL PERFORMANCE, AND WIDER CIRCUMSTANCES.

SOCIETY'S APPROACH

In relation to Executive pay all members of the Remuneration Committee are independent Non-executive directors. They rely on both performance assessment and independently verifiable information about the Society's performance and market information to make determinations of remuneration policy and outcomes. The Committee may consult external advisors on pay and rewards but has not done so during 2021 as the basis of Executive Director pay has not changed.

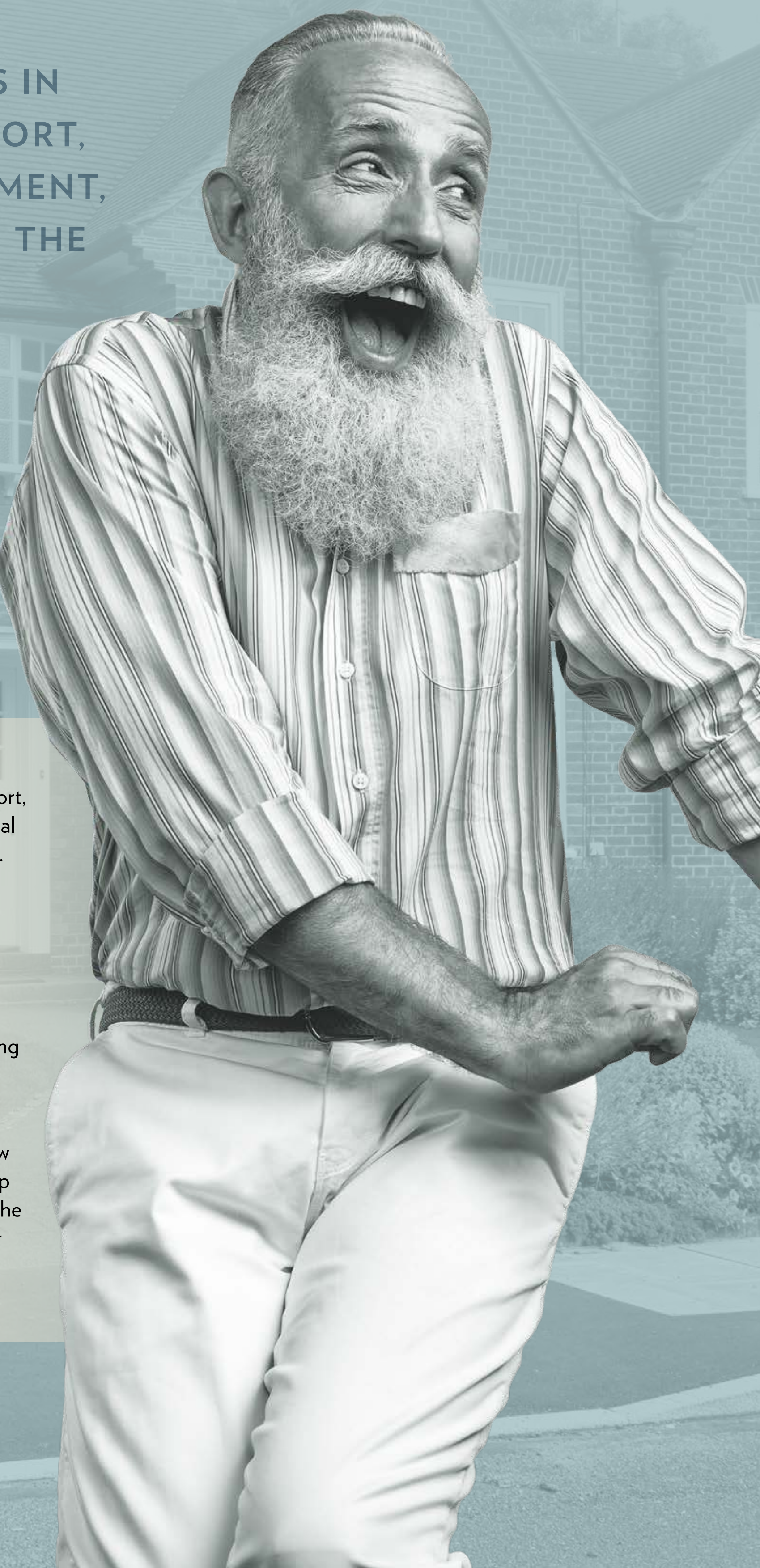
The operation of remuneration policy within the work force as a whole is based upon criteria set out by the Board or the Remuneration Committee. Annual pay reviews for individuals within the work force are based upon internal performance assessments and annual appraisals but are reviewed by the Executive Directors. Performance related pay is awarded from a pool allocated by the Remuneration Committee based upon the performance of the Society and allocated to individual staff members in accordance with a defined scheme. The initial allocations are made by the management of the Society and the operation and application of the scheme is independently reviewed by the Executive Directors.

It is the view of the Committee that Directors' remuneration for the year has been in accordance with the Society's stated Remuneration Policy. It is also the Committee's view that the Society's policy and practice has taken account of the principles of the UK Corporate Governance Code and, on behalf of the Committee, I recommend that you endorse this report.

Patrick Muir
Chairman, Remuneration Committee
3 March 2022

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 laws and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they have elected to prepare the Group and Society Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

IN PREPARING EACH OF THE GROUP AND SOCIETY ANNUAL ACCOUNTS, THE DIRECTORS ARE REQUIRED TO:

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The Directors are responsible for ensuring that the Group:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website.

Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE COUNTRY-BY-COUNTRY REPORTING (CBCR) INFORMATION

The CBCR Information comprises the information disclosed below.

The Directors of the Society are responsible for preparing the CBCR Information for the year ended 31 December 2021 in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013. In preparing the CBCR Information, the Directors are responsible for:

- ***interpreting the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013;***
- ***determining the acceptability of the basis of preparation of the CBCR information set out in Note 32;***
- ***making judgements and estimates that are reasonable and prudent; and***
- ***establishing such internal control as the Directors determine is necessary to enable the preparation of CBCR Information that is free from material misstatement, whether due to fraud or error.***

"Very good society, straightforward and clear. Thanks."

CUSTOMER COMMENT

Independent auditor's report

to the members of National Counties Building Society

1. Our opinion is unmodified

We have audited the Group and Society annual accounts of National Counties Building Society for the year ended 31 December 2021 which comprise the Income Statements, Statements of Comprehensive Income, Statements of Changes in Member's Interests, Group Statement of Cash Flow, and the related notes, including the accounting policies in note 1.

In our opinion, the annual accounts:

- give a true and fair view of the state of affairs of the Group and of the Society as at 31 December 2021 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

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

We were first appointed as auditor by the members in 2005. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group and Society in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£740k (2020:£675k) 0.6% (2020: 0.6%) of net assets
Coverage	100% (2020:100%) of Group net assets

Key audit matters		**vs 2020**
Recurring risks (Group & Society)	Lifetime mortgages	◄►
	Impairment losses on loans and advances to customers	▼
	Valuation of gross defined benefit obligation and purchased annuity contracts	▼

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

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

The risk	Our response
Lifetime mortgages **Valuation of the No Negative Equity Guarantee (NNEG)** (£13.5m; 2020: £19.3m) *Refer to page 75 (principal accounting policies), pages 77-78 (critical accounting estimates and judgements in applying accounting policies) and notes 14 of the financial disclosures.* Included within loans and advances to customers are lifetime mortgage portfolios which carry a no negative equity guarantee ("NNEG'). This guarantee limits the Group's and Society's maximum return to the value of the relevant customer's property on redemption. This guarantee is accounted for as a separable embedded derivative, with fair value movements recorded in the Income Statement. The Group's and Society's approach to determining the valuation of the NNEG uses the forecast balance model and then applies a Black Scholes stochastic model to determine the valuation. The Directors assess the fair value of the guarantee by considering key input assumptions to the NNEG valuation model including forecast house price growth, house price volatility, mortality and early voluntary redemption rates. The Black-Scholes model is most sensitive to movements in the house price growth and volatility assumptions. **Valuation of the derivative and hedging adjustment applied to the portfolio** (£90.2m; 2020: £124.9m) and (£124.6m; 2020: £156.6m) *Refer to page 75 (principal accounting policies), pages 77-78 (critical accounting estimates and judgements in applying accounting policies) and notes 5 and 14 of the financial disclosures.* The Group and Society holds a balance guarantee swap against its interest rate exposure to lifetime mortgages, the notional principal of which is adjusted each quarter in response to the balance of the mortgage portfolio between pre-agreed upper and lower boundaries. During the year, the Group entered into transactions that required accounting consideration, including a reduction of the lower boundary and the transition of the swap from LIBOR to SONIA. The Group and Society determines the value of both the derivative and the fair value hedge adjustment to apply to the loan book using a forecast balance model. This model forecasts the mortgage balances over the remainder of the term of the loans using assumptions in respect of voluntary prepayment, redemption in the event of death or admittance to a care home and additional drawdown. Significant judgement is required to determine each of these key factors, which then influence the balances posted in the annual accounts. COVID-19 continues to create the uncertainty in estimating the assumptions underlying both the forecast balance and NNEG models, in particular the early voluntary redemption rate. Management have updated this assumption in the current year to reflect the recent market movements. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the derivative and hedging adjustments and the valuation of the NNEG have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole, and possibly many times that amount. The annual accounts (note 2.2 and note 2.3) disclose the sensitivities estimated by the Group and Society.	Our procedures included: — **Historical comparisons:** We assessed and challenged assumptions applied in the models against the Group's and Society's historical experience for voluntary prepayment and additional drawdown. As part of this we analysed both current year and historical data sets to asses for trends. We also compared assumptions against historical market data for house price growth and volatility; — **Benchmarking assumptions**: We compared the HPI growth and volatility assumptions to third party market data and industry comparable assumptions; — **Our expertise:** We used our own economists and actuarial specialists to assess the house price assumptions and the mortality assumptions. We have assessed the accounting treatment of the derivative transactions for compliance with IAS 39; — **Independent reperformance:** We estimated the valuation of the derivative and fair value hedge adjustment using our internal valuation specialists. We independently recalculated the Group's and Society's forecast balance and NNEG embedded derivative and compared the output to the Group's and Society's models; — **Sensitivity analysis**: We performed sensitivity analysis on judgmental assumptions, including early voluntary redemption rates, house price growth and volatility, to determine those most significant to the valuation and critically assessed the impact on the NNEG valuation for a range of alternative assumptions; and — **Assessing transparency**: We assessed the adequacy of the Group's and Society's disclosures in respect of the degree of estimation involved in arriving at the valuations and assessed the hedge accounting disclosures for compliance with IAS 39. **Our results** — The results of our testing were acceptable (2020 result: acceptable).

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

The risk	Our response
Impairment losses on loans and advances to customers Income statement credit: £619k credit (2020: £211k debit) Balance sheet: £565k (2020: £1,184k) *Refer to page 75 (principal accounting policies), page 78 (critical accounting estimates and judgements in applying accounting policies) and notes 10 and 29 of the financial disclosures* Individual impairment allowances cover loans specifically identified as impaired and a collective impairment allowance is held for all other loans where impairments are incurred but not yet specifically identified. The Directors assess individual impairments by reference to loans that have suffered significant financial difficulty of the borrower or the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise. The individual and collective impairment allowances are derived from a model that uses a combination of the Group's and Society's historical experience and external data, adjusted for current conditions. The impairment provision requires the Directors to make significant judgements and estimates. In particular, judgement is required on the key assumptions of probability of default and forced sale discount against collateral. The subjectivity of these assumptions has reduced as a result of the more favourable macroeconomic outlook as at 31 December 2021 versus the prior year. The effect of these matters is that, as part of our risk assessment, we determined that the impairment losses on loans and advances to customers has a high degree of estimation uncertainty. The annual accounts (note 2.4) disclose the sensitivity estimated by the Group and Society. .	Our procedures included: — **Control operation:** In response to specific weaknesses identified in the control environment, we expanded the extent of our detailed testing; — **Benchmarking assumptions**: We compared the key assumptions used in the impairment model with those applied at peer organisations; — **Historical comparison**: We assessed the key assumptions used in the impairment model, against the Group's and Society's historical experience; — **Test of detail:** We profiled the loan book based on risk characteristics of current or historical arrears, forbearance flagging and high LTVs. We tested a sample of loans meeting these criteria by reference to relevant supporting information, such as valuation reports, to challenge the completeness and accuracy of the Group's and Society's specific impairment provision estimate. We also inspected correspondence between the Society and the borrower for evidence of customer distress, in order to challenge the completeness and accuracy of the specific impairment provision; — **Independent reperformance:** We independently recalculated the individual and collective impairment allowance; — **Sensitivity analysis**: We assessed the model for its sensitivity to changes in the key assumptions by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus; and — **Assessing transparency:** We assessed the adequacy of the Group's and Society's disclosures in respect of the degree of estimation involved in arriving at the provision balance. **Our results** — The results of our testing were acceptable (2020 result: acceptable).

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

The risk	Our response
Valuation of gross defined benefit obligation £35.7m (2020: £36.8m) **Valuation of purchased annuity contracts** £7.3m (2020: £8.9m) *Refer to page 76 of (principal accounting policies), page 78 (critical accounting estimates and judgements in applying accounting policies) and note 24 of the financial disclosures.* The Group and Society operates a defined benefit pension scheme which has been closed to new members for several years. At 31 December 2021 the Group and Society holds a net defined benefit pension scheme surplus of £0.1m, (2020: deficit, £4,9m) on the balance sheet, which includes gross pension obligations. Small changes in the key assumptions being discount rate, inflation and mortality, used to value the Group's and Society's pension obligation (before deducting scheme assets) would have a significant effect on the Group's and Society's defined benefit obligation. Included within the scheme's assets are purchased annuity contracts whose value also depends on actuarial assumptions to match the insurance contracts obligation. The effect of these matters is that, as part of our risk assessment, we determined that the defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 2.8) disclose the sensitivity estimated by the Group and Society. The risk was elevated for the 2020 audit on the basis that the Group and Society were undergoing the transfer of the scheme to The Pensions Trust 2016. The assets and membership data were successfully transferred during the year ending 2020 and so we consider the risk of inaccuracies to be reduced for the current year.	Our procedures included: — **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the Group's and Society's actuary in assessing management's reliance upon their expert valuation services; — **Benchmarking assumptions**: We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — **Membership data**: We have assessed the reasonableness of membership data with support of our own actuarial specialist, the key assumption applied being whether membership data as at the previous triennial valuation, 30 September 2020, is an appropriate assumption for the current year; — **Plan Assets:** We obtained a year end confirmation from the custodian of the fair value of the plan assets for the Pensions Trust 2016 and assessed the unitisation method applied; and — **Assessing transparency**: We considered the adequacy of the Group's and Society's disclosures in respect of the sensitivity of the obligation to these assumptions. **Our results** — The results of our testing were acceptable (2020 result: acceptable).

We continue to perform procedures over Going Concern (see Section 4). However, following the more favorable economic outlook, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year as a Key Audit Matter.

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

Materiality for the Group financial statements as a whole was set at £740,000 (2020: £695,000), determined with reference to a benchmark of Group net assets of which it represents 0.6% (2020: 0.6%).

Materiality for the Society annual accounts as a whole was set at £703,000 (2020: £660,000), determined with reference to a benchmark of net assets, of which it represents 0.6% (2020: 0.5%).This was capped at a percentage of Group materiality.

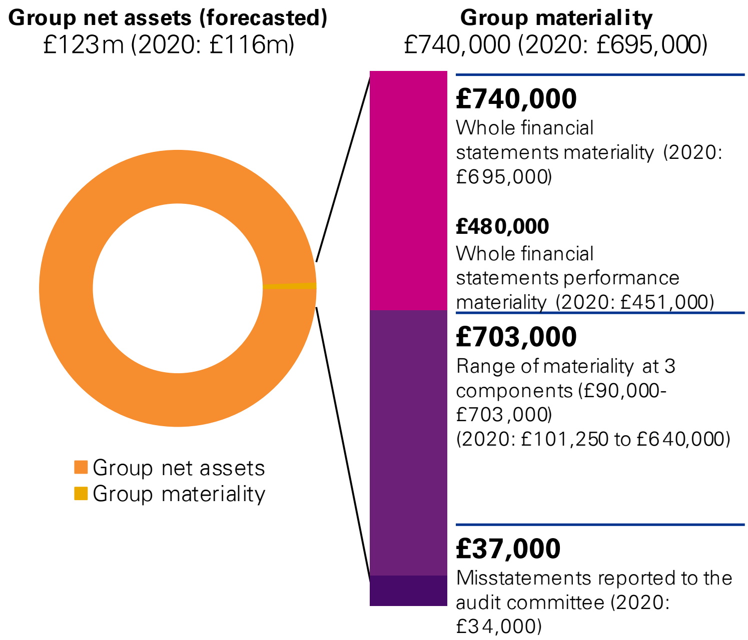
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material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

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £480,000 (2020: £451,000) for the Group and £457,000 (2020: £429,000) for the Society. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £37,000 (2020: £34,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 (2020: 4) reporting components, we subjected 3 (2020: 3) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite. For the residual component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement.



4. Going concern

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

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

The risk that we considered most likely to adversely affect the Group's and Society's available financial resources over this period related to the valuations associated with the lifetime mortgage portfolio, due to the current uncertainty in the economic environment.

Our procedures also included:

— We assessed the Group's and Society's forecast profitability and capital models to identify key inputs for further analysis. These included the assumptions underlying the valuation of the no negative equity guarantee, funding availability, house price inflation and interest rates;

— We critically assessed the Directors' going concern assessment, including the reasonableness of the key dependency assumptions (identified above) and the level of downside sensitivities applied based on our understanding of the sector in which the Group and Society operates (using our knowledge of macroeconomic assumptions and stress testing scenarios recently applied in this industry);

— We evaluated the Group's and Society's liquidity position through consideration of reasonably plausible downside scenarios. This involved modelling stressed levels of retail and wholesale funding outflows and assessing the impact on the Group's and Society's regulatory liquidity ratios;

— We engaged with the Prudential Regulation Authority to understand their assessment of the Group's and Society's capital and liquidity position; and

— We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the annual accounts using our knowledge of the relevant facts and circumstances developed during our audit work, considering economic outlook, key areas of uncertainty and mitigating actions available to the Group and Society to respond to these risks.

Our conclusions based on this work:

— we consider that the Directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate;

— we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Society's ability to continue as a going concern for the going concern period; and

— we have nothing material to add or draw attention to in relation to the Directors' statement in note 1.1 to the annual accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Society's use of that basis for the going concern period, and we found the going concern disclosure in note 1.1 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

— Enquiring of Directors and other management, and inspection of policy documentation as to the Group's and Society's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's and Society's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

— Reading Board, Audit Committee and Risk Committee minutes.

— Considering remuneration incentive schemes and performance targets for management and Directors.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition, with the exception of the Effective Interest Rate (EIR) adjustment. The revenue streams are considered non-complex and require limited judgement. However, we have recognised a fraud risk in respect of the EIR adjustment to interest income given the subjectivity involved in estimating the future redemption profiles of the loans.

We also identified fraud risks in relation to: lifetime mortgages; impairment losses on loans and advances to customers; and valuation of gross defined benefit obligation and purchased annuity contracts. Further detail is set out in the key audit matter disclosures in section 2 of this report

We performed procedures including:

— Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted outside the normal course of business and those posted to unusual accounts.

— Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

We discussed with those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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

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

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

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

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

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

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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

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

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

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

The Directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

— the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

— the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and

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

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

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

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

— the annual accounts are not in agreement with the accounting records; or

— we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 56 and 57, the Directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

KPMG

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

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

Richard Faulkner (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
3 March 2022

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Interest receivable and similar income	3	**47,845**	48,204	**47,060**	47,484
Interest payable and similar charges	4	**(14,134)**	(23,684)	**(14,161)**	(23,711)
Net interest income		**33,711**	24,520	**32,899**	23,773
Fees and commissions receivable		**126**	114	**116**	124
Net gains/(losses) from financial instruments	5	**7,239**	237	**4,722**	(2,158)
Income from investments in subsidiaries	6a	**–**	–	**298**	359
Share of profits from associate	6b	**–**	13	**–**	–
Gain on investment properties	18	**302**	465	**–**	–
Other income	6c	**654**	460	**67**	108
Total net income		**42,032**	25,809	**38,102**	22,206
Administrative expenses	7	**(18,907)**	(17,113)	**(18,466)**	(16,887)
Depreciation and amortisation	17	**(1,122)**	(1,031)	**(857)**	(933)
Pension scheme finance charge	24	**(73)**	(32)	**(73)**	(32)
Operating profit before impairment losses and provisions		**21,930**	7,633	**18,706**	4,354
Provisions for impairment losses on loans and advances	10a	**619**	(211)	**586**	(209)
Provisions for liabilities	10b	**–**	(5)	**–**	(5)
Profit before tax		**22,549**	7,417	**19,292**	4,140
Tax charge	11	**(4,001)**	(1,090)	**(3,387)**	(629)
Profit for the financial year	25	**18,548**	6,327	**15,905**	3,511
Profit for the financial year attributable to:					
Members of National Counties Building Society		**18,250**	5,968	**15,905**	3,511
Non-controlling interests		**298**	359	**–**	–
		18,548	6,327	**15,905**	3,511

The Notes on pages 72 to 118 form part of these Accounts.
The above results are all derived from continuing operations.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Profit for the financial year	25	**18,548**	6,327	**15,905**	3,511
Other comprehensive loss					
Items that will not be re-classified to the income statement					
Remeasurement of retirement benefit obligations	24	**868**	(3,512)	**868**	(3,512)
Tax (charge)/credit	11	**(165)**	667	**(165)**	667
		703	(2,845)	**703**	(2,845)
Items that may subsequently be re-classified to the income statement					
Available-for-sale investments:					
Fair value movements taken to reserves		**(2,190)**	1,413	**(2,190)**	1,413
Amount transferred to income statement		**(7)**	(34)	**(7)**	(34)
Tax credit/(charge)	11	**331**	(307)	**331**	(307)
	26	**(1,866)**	1,072	**(1,866)**	1,072
Other comprehensive loss for the year net of tax		**(1,163)**	(1,773)	**(1,163)**	(1,773)
Total comprehensive income for the year		**17,385**	4,554	**14,742**	1,738
Total comprehensive income attributable to:					
Members of National Counties Building Society		**17,087**	4,195	**14,742**	1,738
Non-controlling interests		**298**	359	**–**	–
		17,385	4,554	**14,742**	1,738

The Notes on pages 72 to 118 form part of these Accounts.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	13a	**315,975**	419,073	**315,975**	419,073
Loans and advances to credit institutions	13b	**500**	817	**100**	491
Debt securities	13c	**124,772**	129,347	**124,772**	129,347
Total liquid assets		**441,247**	549,237	**440,847**	548,911
Derivative financial instruments	14	**9,754**	355	**9,754**	355
Loans and advances to customers	15	**1,866,274**	1,868,649	**1,776,406**	1,765,965
Investments in subsidiary undertakings	16	**–**	–	**96,275**	109,776
Property, plant and equipment	17a	**6,433**	6,225	**6,425**	6,215
Intangible assets	17b	**1,591**	2,134	**671**	960
Investment property	18	**10,585**	9,840	**–**	–
Other assets	19	**1,181**	1,664	**1,146**	920
Retirement benefit asset	24	**115**	–	**115**	–
Deferred tax	12	**455**	1,015	**383**	337
Total assets		**2,337,635**	2,439,119	**2,332,022**	2,433,439
Liabilities					
Shares	20	**1,661,255**	1,765,621	**1,661,255**	1,765,621
Other borrowings					
Amounts owed to credit institutions	21	**283,406**	262,223	**283,406**	262,223
Amounts owed to other customers	22	**137,585**	120,324	**137,585**	120,324
Total other borrowings		**420,991**	382,547	**420,991**	382,547
Total shares and borrowings		**2,082,246**	2,148,168	**2,082,246**	2,148,168
Derivative financial instruments	14	**108,195**	166,291	**102,181**	157,744
Other liabilities	23	**13,463**	3,268	**14,247**	4,075
Retirement benefit obligations	24	**–**	4,846	**–**	4,846
Total liabilities		**2,203,904**	2,322,573	**2,198,674**	2,314,833
Reserves					
General reserves	25	**132,649**	113,598	**132,266**	115,658
Available-for-sale reserve	26	**1,082**	2,948	**1,082**	2,948
		133,731	116,546	**133,348**	118,606
Total reserves and liabilities		**2,337,635**	2,439,119	**2,332,022**	2,433,439
Reserves attributable to:					
Members of National Counties Building Society		**133,253**	116,166	**133,348**	118,606
Non-controlling interests		**478**	380	**–**	–
		133,731	116,546	**133,348**	118,606

The Notes on pages 72 to 118 form part of these Accounts.

These Accounts were approved by the Board of Directors on 3 March 2022 and were signed on its behalf by:

Rodger Hughes
Chairman

Mark Bogard
Chief Executive

Andrew Barnard
Finance Director

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 DECEMBER 2021

	GROUP 2021				
	General reserves £'000	**Available-for-sale reserve £'000**	**Sub total £'000**	**Non-controlling interests £'000**	**Members' interests £'000**
Balance as at 1 January 2021	**113,598**	**2,948**	**116,546**	**(380)**	**116,166**
Profit for the financial year	**18,548**	**–**	**18,548**	**(298)**	**18,250**
Other comprehensive (loss)/income for the year	**703**	**(1,866)**	**(1,163)**	**–**	**(1,163)**
Distribution to non-controlling interest	**(200)**	**–**	**(200)**	**200**	**-**
Balance as at 31 December 2021	**132,649**	**1,082**	**133,731**	**(478)**	**133,253**

	GROUP 2020				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2020	110,216	1,876	112,092	(121)	111,971
Profit for the financial year	6,327	–	6,327	(359)	5,968
Other comprehensive (loss)/income for the year	(2,845)	1,072	(1,773)	–	(1,773)
Distribution to non-controlling interest	(100)	–	(100)	100	-
Balance as at 31 December 2020	113,598	2,948	116,546	(380)	116,166

	SOCIETY 2021				
	General reserves £'000	**Available-for-sale reserve £'000**	**Sub total £'000**	**Non-controlling interests £'000**	**Members' interests £'000**
Balance as at 1 January 2021	**115,658**	**2,948**	**118,606**	**–**	**118,606**
Profit for the financial year	**15,905**	**–**	**15,905**	**–**	**15,905**
Other comprehensive (loss)/income for the year	**703**	**(1,866)**	**(1,163)**	**–**	**(1,163)**
Balance as at 31 December 2021	**132,266**	**1,082**	**133,348**	**–**	**133,348**

	SOCIETY 2020				
	General reserves £'000	Available-for-sale reserve £'000	Sub total £'000	Non-controlling interests £'000	Members' interests £'000
Balance as at 1 January 2020	114,992	1,876	116,868	–	116,868
Profit for the financial year	3,511	–	3,511	–	3,511
Other comprehensive (loss)/income for the year	(2,845)	1,072	(1,773)	–	(1,773)
Balance as at 31 December 2020	115,658	2,948	118,606	–	118,606

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	GROUP 2021 £'000	GROUP 2020 £'000
Cash flows from operating activities			
Profit before tax		**22,549**	7,417
Adjustments for:			
Depreciation and amortisation		**1,122**	1,031
Loss on sale of investment properties		**29**	-
Amortisation of debt securities		**1,785**	2,142
Share of losses of associate		-	(13)
Gain on investment properties		**(331)**	(465)
Provision for impairment losses on loans and advances		**(619)**	211
Loans and advances written off		-	(142)
Pension scheme charge		**855**	884
		25,390	11,065
Changes in operating assets and liabilities:			
Increase/(decrease) in prepayments, accrued income and other assets		**539**	(431)
Increase/(decrease) in accruals, deferred income and other liabilities		**4,282**	(4,070)
Net increase in loans and advances to customers		**(48,404)**	(19,584)
Net (decrease)/increase in shares		**(100,792)**	65,843
Net increase/(decrease) in amounts owed to other credit institutions and other customers		**38,700**	(14,037)
Net decrease in derivatives and fair value adjustments		**(13,100)**	(13,091)
Contributions to the pension scheme		**(4,948)**	(1,244)
Taxation paid		**(1,192)**	-
Net cash flows from operating activities		**(124,915)**	13,386
Cash flows from investing activities			
Purchase of debt securities		**(20,447)**	(8,508)
Disposal of debt securities		**17,987**	15,114
Purchase of property, plant and equipment		**(609)**	(669)
Disposal of property, plant and equipment		-	16
Purchase of investment property		**(1,063)**	(4,608)
Disposal of investment property		**620**	643
Purchase of intangible assets		**(178)**	(318)
Purchase of subsidiary/associate shares		-	(463)
Distribution to non-controlling interest		-	(100)
Net cash flows from investing activities		**(3,690)**	1,107
Distribution to non-controlling interest		**(200)**	-
Net cash flows from financing activities		**(200)**	-
Net (decrease)/increase in cash and cash equivalents		**(103,415)**	25,558
Cash and cash equivalents at 1 January		**419,890**	394,332
Cash and cash equivalents at 31 December	27	**316,475**	419,890

The Distribution to non-controlling interest has been reclassified in the current year to net cash flows from financing activities.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

THE PRINCIPAL ACCOUNTING POLICIES ADOPTED AND APPLIED CONSISTENTLY IN THE PREPARATION OF THE ANNUAL ACCOUNTS OF THE GROUP AND SOCIETY ARE SET OUT BELOW:

1.1 BASIS OF PREPARATION

The Annual Accounts have been prepared in accordance with applicable United Kingdom Accounting Standards issued by the Financial Reporting Council – Financial Reporting Standard 102 (FRS 102) including the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement*, and where relevant and material, the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986. The Annual Accounts have been prepared under the historical cost convention as modified by the fair value revaluation of available-for-sale assets, derivatives, hedged items and investment property.

The preparation of the accounts in accordance with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Details of the critical accounting estimates and judgements in applying the accounting policies are set out in Note 2.

The Society's and Group's business activities and objectives, together with the factors likely to affect its future development, performance and position, are set out in the Chief Executive's Review on pages 8 to 14 and the Strategic Report on pages 16 to 34. The financial and capital position of the Society and principal risks and uncertainties are described earlier within the Directors' Report and in the Strategic Report. The Society's position in respect of liquidity risk and other financial risks is shown in Note 29 to the Accounts.

The Group and Society meet their day-to-day liquidity requirements through managing both their retail and wholesale funding sources and are comfortably in excess of their regulatory capital requirements. The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. This assessment was based on forecasts prepared by the Group, which incorporated severe but plausible downside scenarios to stress test impacts on capital requirements and liquidity taking into account the PRA published stress test scenario for building societies not participating in the annual concurrent stress test, which includes the Society, published in February 2021. The Society's stress tests include stresses to short and longer term interest rates, margin, house prices and a tightening of the unsecured wholesale funding market. Even after combining these stresses the Society continued to exceed its all-in regulatory capital requirement which is derived from stress tests considered to be at least as severe as the Bank of England scenario published in February 2021. Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of least 12 months from the date of approval of these financial statements. Therefore, they continue to adopt the going concern basis of accounting in preparing the Annual Accounts.

The parent Society is included in the consolidated annual accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society Annual Accounts have been applied:

- No separate parent Society Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

The Country by Country information (unaudited) for the year ended 31 December 2021 has been prepared on the following basis:

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in Note 8.
- Turnover comprises net interest income, fees and commissions receivable and payable and other income as reported in the Group Income Statement.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax paid represents the cash amount of corporation tax paid during the year, as disclosed in the Group Statement of Cash Flow.

1.2 BASIS OF CONSOLIDATION

The Group Accounts consolidate the assets, liabilities, income and expenditure and cash flows of the Society and all its subsidiary undertakings, all of which are made up to 31 December. Where the Society owns less than 100% of the subsidiary, the Income Statement and Statement of Financial Position disclose the non-controlling interest share not available to Members. Where the Society has acquired, started or disposed of a subsidiary in the year, then the results of that subsidiary are included in the Group Income Statement from the date of acquisition or business commencement or up to the date of disposal.

The Society's investments are treated as subsidiaries in the Group accounts where the Society is deemed to control the entity in accordance with the requirements of FRS102. Generally, this is where the Society owns more than 50% of the share capital of the business. In those subsidiaries where the Society owns less than 100% of the share capital of the subsidiary, the minority's share of the (loss)/profit for the period of the subsidiary and its share of reserves are included as Non-Controlling Interests.

The Society's investment in a business which it does not control, but over which it has significant influence will be treated as an associate in the Group accounts. Generally, in accordance with FRS102, this is where the Society owns more than 20%, but less than 50%, of the share capital of the business.

The Group's investments in associates are accounted for using the equity method. The Group's initial cost of investment is adjusted to reflect the Group's share of the profit or loss of the associate from the date of investment.

Where an associate becomes a subsidiary during an accounting period, then the Society will fully consolidate the results of the entity acquired from the date it became a subsidiary with the previous accounting as an associate retained.

In the Society's Accounts, loans to subsidiary undertakings and associates are initially recognised at fair value which is at cost, as adjusted where appropriate for fair value hedge accounting. Shares in subsidiary undertakings and associates are stated at cost less provisions for impairment.

The Society is taxed on the profits of the Family & Arden Homes LLP as they arise and therefore the Society's share of the profits and losses of this partnership are included within the Society's Income Statement.

1.3 INTEREST RECEIVABLE AND PAYABLE

Interest income and interest expense for all interest bearing financial assets and liabilities that are measured at amortised cost, are recognised in interest receivable and interest payable in the Income Statement using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Upfront fees charged to customers and direct external costs incurred in relation to originating mortgage loans such as broker and packager fees and the cost of other incentives are included in the calculation of the effective interest rate. The calculation of the effective interest rate also includes an estimate of the early redemption fees expected to be charged to customers who choose to exit their mortgage contracts within the period an early redemption fee applies. The inclusion of these fees and costs has the effect of spreading them over the expected life of the loan. Expected lives are estimated using historic data and management judgement and the calculation is adjusted when actual experience differs from estimates, with the impact of these changes in estimates on the net carrying amount of the asset or liability being recognised immediately in the Income Statement.

Interest on impaired financial assets is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

Premiums paid on the acquisition of mortgage books are included in the effective interest rate of the mortgages acquired and are therefore spread over the expected lives of those mortgages. The amortisation of the premiums paid is adjusted monthly based on actual experience of loans redeeming, with the impact of this being recognised immediately in the Income Statement.

1.4 FEES AND COMMISSIONS RECEIVABLE AND PAYABLE AND OTHER INCOME

Fees and commissions receivable and payable that are not part of the effective interest rate are recognised in the period during which they are earned or incurred.

Rental income from investment properties and freehold land and buildings is recognised on an accrued basis as the income is earned and included in the Income Statement as other income.

1.5 PROPERTY, PLANT AND EQUIPMENT

The cost of additions and major alterations to land and buildings, and additions to equipment, fixtures, fittings and vehicles, are capitalised. Depreciation is provided at rates calculated to write down the assets to their estimated residual values over the course of their anticipated useful lives. The principal rates and bases of depreciation applied are as follows:

Office equipment, fixtures, fittings and motor vehicles:
25% per annum on a reducing balance basis.

Computer equipment:
25% per annum on a straight line basis commencing from operational deployment within the business.

Computer equipment leased:
Computer equipment that is the subject of a finance lease is depreciated over the period of the lease.

Freehold buildings:
The freehold head office building in Epsom is a listed building and is properly maintained in a good state of repair and is considered to have a useful life of at least fifty years. The Directors believe that the recoverable amount exceeds the book value and consequently no depreciation has been provided. In accordance with FRS 102, non-depreciated assets are reviewed annually for impairment. Any such impairment would be immediately charged to the Income Statement.

The other buildings are being depreciated on a straight line basis over 50 years commencing from the start of 2014 when the Group transitioned to FRS102. The land value is assumed to be 50% and is not depreciated.

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

1.6 INVESTMENT PROPERTY

Residential property acquired by the Group for capital appreciation and rental to residential tenants are treated as investment properties. The costs capitalised include the initial cost of acquiring the property and any costs incurred in the refurbishment of the property to prepare it for rent.

Investment property is carried at fair value which is determined annually using open market valuations provided by a suitably qualified RICS surveyor. Changes in fair value are recognised in the Income Statement.

1.7 INTANGIBLE ASSETS

Software
Purchased software and external costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured.

Intangible assets are stated at cost less cumulative amortisation.

Amortisation begins when the asset becomes available for operational use and is charged to the Income Statement on a straight line basis over the estimated useful life of the software, which is generally four years. The assets and amortisation periods used are reviewed annually for impairment with any impairment being charged immediately to the Income Statement.

Goodwill

Goodwill may arise on the acquisition of a entity from comparing the fair value of assets and liabilites acquired with the fair value of consideration paid including costs. In accordance with FRS102, goodwill is considered to have a finite useful life and therefore should be amortised on a systematic basis over this life. Based on the available data and stage of development of the business, an initial assessment of this useful life will be made, and unless there is strong evidence to support it, this period will not exceed 5 years. An annual impairment test will be performed to support the unamortised goodwill balance.

1.8 LEASES

Assets acquired by the Group under finance leases are capitalised and depreciated over the term of the lease and the future payment obligations are shown in other liabilities.

If the Group enters into an operating lease, the rental charges are charged to the Income Statement on a straight line basis over the life of the lease.

1.9 FINANCIAL ASSETS

Under the requirements of IAS 39, the Group classifies financial assets in the Statement of Financial Position as either loans and receivables, assets available-for-sale or assets at fair value through profit or loss.

ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group values its loans and receivables at amortised cost less any provision for impairment. Any upfront fees paid by customers and costs paid to third parties directly related to the origination of the loans, including premiums paid on loans acquired, will be added to the initial value of the loan and then recognised over the expected life of the loan as part of the effective interest rate. Any short-term discount interest rate or fixed interest rate will be included within the initial effective interest rate calculation and spread over the expected life of the loan. Throughout the year and at each year end, the assumptions made around the expected life of the loans are reviewed for appropriateness. The impact of any change to these assumptions on the value of the loans carried in the Statement of Financial Position will be recognised immediately through interest receivable and similar income and reflected in the carrying value of those assets.

The value of loans and advances to customers that are included in designated hedging relationships, which includes the Lifetime Mortgages, is adjusted for changes in the fair value of the risk being hedged.

Loans and advances to credit institutions, which are included in liquid assets, are classified as loans and receivables.

ASSETS CLASSIFIED AS AVAILABLE-FOR-SALE

Available-for-sale assets are non-derivative financial assets that are intended to be held for a non defined period of time. These assets may be sold to meet the regulatory requirements to test market conditions for liquidity, to alter the liquidity portfolio or in response to changes in interest rates. The Group's debt securities are classified as available-for-sale assets and these assets are valued in the Statement of Financial Position at fair value with subsequent changes in this value being recognised through Other Comprehensive Income except for any impairment losses which are recognised in the Income Statement. Upon sale or maturity of the asset, the cumulative gains and losses that have been recognised in Other Comprehensive Income are transferred from the available-for-sale reserve and recognised in the Income Statement.

The fair values of available-for-sale assets are based on quoted market prices.

Debt securities held by the Society may be sold subject to a commitment to repurchase them (repo). Where substantially all the risks and rewards of ownership are retained by the Society, the securities remain on the Statement of Financial Position and the counterparty liability is included separately in the Statement of Financial Position. Where the Society purchases debt securities with a commitment to resell them (reverse repo) it does not retain the risks and rewards of the securities and therefore treats them as secured loans.

The difference between the sale and repurchase price is accrued as income or expenditure over the life of the agreements.

ASSETS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives are used by the Group as a means of hedging market risk, primarily interest rate fluctuations, and are not used for trading purposes. Derivatives are included within the Statement of Financial Position at fair value. These fair values are based on external counterparty valuations and are included within assets when the fair value is positive and as liabilities when the fair value is negative.

The Group designates certain of its derivatives as hedging instruments in qualifying hedging relationships. These designated Fair Value Hedges hedge the Group's exposure to variability in the fair value of hedged financial assets and liabilities.

On initial designation of the fair value hedge relationship, the Group formally documents the relationship between the hedging instrument and the asset or liability that is being hedged, 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 Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis as to whether the hedging instrument is expected to be highly effective in offsetting the change in the fair value of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge effectiveness test are within a range of 80-125 per cent.

Changes in the fair value of hedging derivatives are recognised immediately in the Income Statement together with changes in the fair value of the item being hedged with respect to the hedged risk. Whilst the intention of the designated hedge relationship is for the change in value of the hedging instrument and the hedged asset or liability to be exactly matched this is unlikely to be the case. The difference between these values is termed hedge ineffectiveness and will result in a net income or charge to the Income Statement in the period.

If at any point the hedging relationship no longer meets the criteria for fair value hedge accounting then hedge accounting is discontinued prospectively. Any hedging adjustment up to the point of the hedging relationship being discontinued is amortised to the Income Statement over the remaining life of the hedged asset or liability.

Certain derivatives do not qualify for hedge accounting as they are not in designated hedging relationships. For example, as part of the Group's risk management practices a number of fixed interest rate swaps are entered into to hedge future fixed rate mortgage completions. This hedging relationship can only be formally designated after the loans have completed. Changes in the fair value of these derivatives are recognised immediately in the Income Statement, with no offsetting fair value adjustment to the hedged items.

Virtually all of the Society's and Group's Lifetime Mortgages include a No Negative Equity Guarantee which is valued as an embedded derivative in the Statement of Financial Position. Any change in the value of this derivative is recognised immediately in the Income Statement. The liability included within the Statement of Financial Position is calculated using a Black-Scholes valuation model. The key inputs to the model are morbidity/mortality actuarial tables, long-term average annual HPI, HPI volatility, prepayment assumptions and a discount rate curve. Those assumptions deemed by management to be the most sensitive to the calculation of the liability are included in note 2.2.

One of the derivatives hedging the Society's Lifetime Mortgages and inter-company loan to fund a subsidiary's Lifetime Mortgages includes a contractual upper and lower boundary on the principal amount of the derivative. Changes in the fair value of this derivative therefore are affected by, amongst other variables, the principal amounts of the loans being hedged. Changes in the overall fair value of the derivative contract are included in the Statement of Financial Position however the relevant offsetting hedging adjustment in the value of the Lifetime Mortgages will differ if the principal value of the mortgages is above or below the derivative boundaries. More details are given in Note 2.3.

The Society enters into credit support agreements, which protect against counterparty default in respect of hedging instruments by means of collateral transactions which reflect movements in the market values of the instruments involved. Interest on cash collateral is included within interest receivable and similar income or interest payable and similar charges, as appropriate. Collateral is included in the Statement of Financial Position within liquid assets, other assets or other liabilities, as appropriate.

1.10 IMPAIRMENT OF FINANCIAL ASSETS

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Provisions are made to reduce the value of loans and advances to customers to the amount which the Directors consider to be recoverable.

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

The Group first assesses whether objective evidence of impairment exists for loans using the following criteria:

- whether those properties are in possession, or,
- when monthly repayments on the loans have not been maintained, or,
- when forbearance has been exercised in the conduct of the account due to actual or apparent financial stress of the borrower, whether in arrears or not, or,
- when loans have no monthly repayment requirement and eventual cash flows may be insufficient to fully repay those loans, or,
- when there is other objective evidence of loan impairment.

If there is objective evidence of impairment of an individual loan, the amount of the loss is measured as the difference between the outstanding loan balance and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. This calculation takes into account the Group's experience of default rates, collection periods, the effect of regional movements in house prices based upon a recognised index, adjustments to allow for a forced sale valuation and costs of the property sale. If this calculation shows a potential loss against the loan's carrying value then this is recognised in the Income Statement and included in the Statement of Financial Position.

Where a loan has been taken into possession, the loss provision is adjusted to take account of the updated property value based on a surveyors valuation.

For the remainder of the loans where no objective evidence of impairment has been identified at the reporting date, the loans are grouped together based on those with similar credit risk characteristics and they are collectively assessed for impairment.

A collective provision is made against a group of loans and advances where there is objective evidence based on the Group's experience that credit losses have been incurred, but not yet identified at the reporting date. The calculation of this provision is similar to that of the individual impairment provision, but takes into account an emergence period and lower expected default rates.

Where certain emerging impairment characteristics are considered significant but have not been included as part of the impairment calculation, management may elect to apply an overlay to the calculated impairment provision to ensure the Group has sufficient impairment provisions at the Statement of Financial Position date.

The amount charged in the Income Statement represents the net change in the individual and collective provisions, after allowing for impairment losses written off in the year and impairment recoveries.

Provisions for impairment losses on loans and advances are deducted from loans and advances to customers in the Statement of Financial Position. Interest on impaired loans is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

IMPAIRMENT LOSSES ON AVAILABLE-FOR-SALE ASSETS

At each reporting date the Group assesses whether or not there is objective evidence that individual debt securities are impaired due to for example default of a counterparty or disappearance of an active market.

Where the Group determines that there is objective evidence of impairment the cumulative gain or loss that had been recognised directly in the available-for-sale reserve is removed from reserves and recognised in the Income Statement.

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

1.11 FINANCIAL LIABILITIES

All non derivative financial liabilities of the Group, which include shares and amounts owed to credit institutions and other customers are included in the Statement of Financial Position at amortised cost.

Costs incurred in raising wholesale funds are amortised over the period to maturity using the effective interest rate method.

1.12 RETIREMENT BENEFITS

The Society operates a defined benefits pension scheme, 'The Pensions Trust 2016 – National Counties Building Society Pension and Life Assurance Scheme' (Scheme) providing benefits for Society employees.

The Pension Benefit section of the NCBS Scheme was closed to new members with effect from the renewal on 1 May 2007 and future service accrual ceased on 30 April 2013. From 1 May 2007, a Cash Benefit section was introduced and all Pension Benefit section members became eligible for the Cash Benefit section from 1 May 2013. The Cash Benefit section is now closed to new entrants.

Employees who joined the Society after 1 January 2015 are enrolled into a defined contribution scheme – Group Personal Pension Plan.

All pension schemes are held in separate funds, managed and administered by third parties. The schemes are funded by contributions from the Society and its employees.

The costs of benefits accruing during the year are charged to the Income Statement as administrative expenses to the extent that they are not covered by employee contributions.

The extent to which the interest cost of scheme liabilities exceeds the expected return on scheme assets, or vice versa, is charged/credited to the Income Statement as a pension finance charge/credit.

Liabilities relating to past service cost, including those relating to Guaranteed Minimum Pension equalisation, are charged to the Income Statement as administrative expenses.

At the Statement of Financial Position date, the assets of the Scheme, excluding purchased annuity contracts, are measured at market value. The liabilities and the purchased annuity contracts are measured using the projected unit valuation method. The resulting pension scheme surplus or deficit is recognised immediately in the Statement of Financial Position with the corresponding deferred taxation asset or liability. Any resulting actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income, along with the resultant change in the deferred taxation asset or liability.

1.13 PROVISIONS AND CONTINGENT LIABILITIES

The Group recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The Group discloses a contingent liability where an outflow of resources is not probable, but is not remote.

1.14 TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in full, without discounting, in respect of all such timing differences which have arisen but not reversed by the Statement of Financial Position date, except as otherwise required by FRS 102.

The Society is taxed on the profits of the Family & Arden Homes LLP as they arise and therefore the Society's share of the profits and losses of this partnership are included within the Society's Income Statement. Any gains/losses on the revaluation of the investment properties is only taxed when this is crystalised on the sale of the property and therefore deferred tax is provided on this timing difference in the Society and the Group.

1.15 CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flow, cash comprises cash in hand and balances with the Bank of England 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 Flow has been prepared using the indirect method.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

THE GROUP MAKES ESTIMATES AND ASSUMPTIONS THAT AFFECT THE REPORTED AMOUNTS OF ASSETS AND LIABILITIES. ESTIMATES AND JUDGMENTS ARE CONTINUALLY EVALUATED AND ARE BASED ON HISTORICAL EXPERIENCE AND OTHER FACTORS, INCLUDING EXPECTATIONS OF FUTURE EVENTS THAT ARE BELIEVED TO BE REASONABLE UNDER THE CIRCUMSTANCES. THESE ARE DESCRIBED BELOW:

2.1 EFFECTIVE INTEREST RATE – EXPECTED MORTGAGE LIVES

The calculation of an effective interest rate requires the Group and Society to make assumptions around the average expected lives of mortgage loans. In determining these expected lives the Group and Society uses historical and forecast redemption data as well as management judgement. These assumptions are regularly reviewed for reasonableness taking into account changes in actual experience. If the Directors consider that a change in assumption is needed the impact of the change on the carrying value of the loans would be reflected immediately in the Income Statement.

If the average lives of the originated non-lifetime mortgage loans which are in the Society were to increase on average by one month, the carrying value of mortgages would increase by £0.6m with a corresponding credit to the Income Statement. If the average lives of the originated non-lifetime mortgage loans which are in the Society were to decrease on average by one month, the carrying value of mortgages would increase by £1.5m with a corresponding credit to the Income Statement.

2.2 LIFETIME MORTGAGES – NNEG

The Group's mortgage portfolio includes a pool of Lifetime Mortgages. All the loans were advanced at low Loan to Value ratios and the rates of interest charged are fixed for the duration of the mortgage. Borrowers do not make monthly repayments and instead, under their contractual terms, interest is capitalised within the balance and becomes repayable on redemption of the loan.

The mortgage contract for most of these loans contains a clause where in certain circumstances if the amount received on the sale of the property on redemption of the loan is less than the contractual loan balance due to the Society, the Society cannot pursue the borrower or the estate for the shortfall – a No Negative Equity Guarantee (NNEG). This exposes the Society to the risk that the redemption balance may not be fully recovered. This exposure is represented in the Statements of Financial Position as a derivative liability and any change in value of this derivative is immediately recognised in the Income Statement. A description of how this liability is calculated is included within Note 1.9.

As redemptions can be many years in the future, dependent on the morbidity/mortality of the borrowers, the value of this derivative is most sensitive to the value of the property at redemption. A small change in the expected future house price inflation assumptions can have a notable impact on the estimated redemption proceeds from the property sale.

If the average long-term annual house price rise included in the calculation of 3.75% was 0.5% per annum lower than forecast the Group's NNEG derivative value would increase, resulting in a charge to the Income Statement of £4m in the Group and £2.5m in the Society. If the average long-term annual house price rise was 1% per annum lower than forecast the charge to the Income Statement in the Group would be £8.7m and in the Society would be £5.6m.

If the average long-term annual house price rise included in the calculation of 3.75% was 0.5% per annum higher than forecast the Group's NNEG derivative value would decrease, resulting in a credit to the Income Statement of £3.3m in the Group and £2m in the Society. If the average long-term annual house price rise was 1% per annum higher than forecast the credit to the Income Statement in the Group would be £5.9m and in the Society would be £3.5m.

If the house price volatility assumption included in the calculation of 10% was to increase by 1%, the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £2.5m in the Group and £1.7m in the Society. If the house price volatility assumption was to decrease by 1%, the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £2.3m in the Group and £1.5m in the Society.

If the house price volatility assumption included in the calculation of 10% was to increase by 2%, the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £5.1m in the Group and £3.5m in the Society. If the house price volatility assumption was to decrease by 2%, the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £4.4m in the Group and £2.8m in the Society.

If the time included within the model between the death of a borrower or the borrower going into long-term care was to increase by 1 month, then the Group's NNEG derivative value would increase resulting in a charge to the Income Statement of £0.2m in the Group and £0.1m in the Society.

If the voluntary prepayment rate of the lifetime loans experienced during the year, was to continue at the same rate for the next three years, then the Group's NNEG derivative value would decrease resulting in a credit to the Income Statement of £0.7m in the Group and £0.4m in the Society.

2.3 LIFETIME MORTGAGES – HEDGING DERIVATIVE FINANCIAL INSTRUMENT

The Group has entered into a fixed interest rate swap to hedge its exposure to the fixed interest rate Lifetime Mortgage book. This swap includes an upper and lower contractual boundary around the expected future value of the mortgage book over time. The Society has adopted fair value hedge accounting and so changes in the fair value of the swap are offset in the Income

Statement by changes in the fair value of the Lifetime Mortgage book with respect to hedge interest rate risk, but with net ineffectiveness being recognised. The Group's expectations of the future performance of the Lifetime Mortgage book have changed such that the swap notional is expected to be higher than the lifetime mortgage portfolio balance and therefore it is below the lower boundary within the swap. This has resulted in increased ineffectiveness being recognised in the Income Statement. The voluntary prepayment rate of the lifetime loans by customers has the biggest impact on whether the lifetime mortgage balance falls below the lower boundary and if the voluntary prepayment rate experienced during the year, was to continue at the same rate for the next three years, then this would result in an additional charge to the Income Statement of £3.5m both in the Group and the Society.

2.4 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgment.

Provisions are calculated using historic default and loss experience, but require judgment to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates), the length of time before impairments are identified (emergence period) and the length of time before a security is taken into possession and sold (collection period). The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.

The most critical estimate is of the level of house prices where a further property value reduction, in addition to that already included in the provisioning methodology, of 10%, would increase the loss provision by £0.5m in the Group and £0.5m in the Society. Other sensitivities include the emergence period, which is the time elapsed between a default event occurring and the Group being made aware of it, where an increase of six months would result in an additional provision of £0.1m in the Group and £0.1m in the Society.

2.5 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group's derivatives are valued at fair value using counterparty valuations. We replicate these values using market yield curves to ensure these valuations are reasonable.

A change in the market yield curves of plus 1% would change the total net fair value of derivative financial instruments included in the Statement of Financial Position of the Group by £63.7m. The change in yield curves would also impact the fair value of the items being hedged by the derivatives, offsetting the impact to the extent that the hedging relationship was effective. The impact on the Society would not be materially different from the Group.

2.6 FAIR VALUE OF INVESTMENT PROPERTY

The Group's portfolio of investment properties is included in the Statement of Financial Position at fair value. The fair value is on the basis of market value provided by a suitably qualified RICS surveyor taking into account the condition of the property at the time of the valuation including any on-going refurbishment work. Residential property prices fluctuate based on local market conditions and a 10% reduction in the value of the investment properties included in the Statement of Financial Position would result in a £1,058,500 charge to the Group Income Statement.

2.7 DEFERRED TAX ASSETS

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax asset. These projections are based on business plans, future capital requirements and current and future economic conditions.

The assumptions surrounding new business volumes and changes in market interest rates represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at the rate expected to be prevailing when the timing differences reverse.

If management's forecasts were 10% lower than predicted, there would be no impact on the Society's ability to utilise the deferred tax asset.

2.8 EMPLOYEE PENSION BENEFITS

The Group operates a defined benefit pension scheme. Significant judgments (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the Scheme.

These judgments, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in Note 24 to the Accounts.

The main sensitivities that affect the valuation of the liability in the Group and Society are the discount rate, the inflation rate and the life expectancy of the members of the scheme. On a stand-alone basis, each sensitivity will impact the liability and the net balance sheet position by a different amount taking into account that the purchased annuity contract asset is matched to the liability that is insured. A 0.25% increase in the discount rate will decrease the liability by £1.5m and increase the net balance sheet position by £1.3m and a 0.25% decrease in the rate will increase the liability by £1.6m and decrease the net balance sheet position by £1.4m. A 0.25% increase in the inflation rate will increase the liability by £0.8m and decrease the net balance sheet position by £0.7m and a 0.25% decrease in the inflation rate will decrease the liability by £0.8m and increase the net balance sheet position by £0.8m. A 1 year increase in the average life expectancy of the members of the scheme will increase the liability by £1.2m and decrease the net balance sheet position by £0.7m and a 1 year decrease in the average life expectancy of the members of the scheme will decrease the liability by £1.2m and increase the net balance sheet position by £0.7m. The figures above exclude the impact of deferred tax.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
On loans fully secured on residential property	**59,748**	58,676	**56,538**	55,311
On other loans:				
Connected undertakings	**10**	6	**2,435**	2,651
Other	**387**	447	**387**	447
On debt securities:				
Interest and other income from fixed income securities	**1,627**	1,657	**1,627**	1,657
Net gains arising on realisation	**7**	34	**7**	34
On other liquid assets:				
Interest and other income	**288**	767	**288**	767
Net expense on financial instruments	**(14,222)**	(13,383)	**(14,222)**	(13,383)
	47,845	48,204	**47,060**	47,484

4. INTEREST PAYABLE AND SIMILAR CHARGES

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
On shares held by individuals	**13,341**	21,911	**13,341**	21,911
On deposits and other borrowings	**793**	1,773	**793**	1,773
Other interest payable:				
Connected undertakings	**-**	-	**27**	27
	14,134	23,684	**14,161**	23,711

5. NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Gain/(loss) on derivatives in designated fair value hedge relationships	**57,497**	(14,925)	**57,497**	(14,924)
Adjustments to hedged items in fair value hedge relationships	**(56,785)**	6,216	**(56,785)**	6,216
Gain on other derivatives not in designated fair value hedging relationships	**6,527**	8,946	**4,010**	6,550
	7,239	237	**4,722**	(2,158)

For both the Group and the Society, the net gains/(losses) from financial instruments includes a loss of £2.3m (2020: 7.5m loss) that relates to the hedged derivatives associated with the lifetime mortgages.

6a. INCOME FROM INVESTMENTS IN SUBSIDIARIES

	GROUP		SOCIETY	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Share of profit from Family & Arden Homes LLP	**-**	-	**298**	359

6b. SHARE OF PROFITS FROM ASSOCIATE

	GROUP		SOCIETY	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Share of profits from associate	**-**	13	**-**	-

6c. OTHER INCOME

	GROUP		SOCIETY	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Rents receivable	**432**	413	**15**	62
Management fees from subsidiary	**-**	-	**42**	42
Income from Smart Money People	**212**	43	**-**	-
Other	**10**	4	**10**	4
	654	460	**67**	108

7. ADMINISTRATIVE EXPENSES

	Note	GROUP		SOCIETY	
		2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Staff costs	8	**12,463**	11,094	**12,463**	11,094
Other administrative expenses		**6,444**	6,019	**6,003**	5,793
		18,907	17,113	**18,466**	16,887
Other administrative expenses include:					
Remuneration of Auditor and its associates (excluding Value Added Tax):					
Group and Society statutory audit		**423**	279	**423**	279
Subsidiary statutory audit		**32**	21	**32**	21
Prior year		**50**	55	**50**	55
		505	355	**505**	355
For other services:					
Services to associated pension scheme		**-**	13	**-**	13
Other services pursuant to legislation		**20**	20	**20**	20
Services relating to funding transactions		**25**	15	**25**	15
Total Auditor remuneration		**550**	403	**550**	403

There were no other payments made to the Auditor or their associates during 2021 (2020: No other payments made).

8. EMPLOYEES

	GROUP		SOCIETY	
	2021 Number	2020 Number	**2021 Number**	2020 Number
The average number of persons employed (including Executive Directors) during the year was as follows:				
Full-time	**164**	160	**164**	160
Part-time	**19**	15	**19**	15
	£'000	£'000	**£'000**	£'000
The aggregate staff costs were as follows:				
Wages and salaries	**9,881**	8,699	**9,881**	8,699
Social security costs	**1,115**	989	**1,115**	989
Other pension costs	**1,467**	1,406	**1,467**	1,406
	12,463	11,094	**12,463**	11,094

9. DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society totalling £1,357,000 (2020: £1,313,000) are detailed as follows:

a) Executive Directors

	2021					
	Salary £'000	**Performance bonus £'000**	**Medium-term incentive plan £'000**	**Benefits £'000**	**Pension £'000**	**Total £'000**
Mark Bogard	**272**	**68**	**47**	**21**	**61**	**469**
Andrew Barnard	**190**	**48**	**26**	**14**	**43**	**321**
Chris Croft	**182**	**37**	**19**	**20**	**41**	**299**
	644	**153**	**92**	**55**	**145**	**1,089**

A one year medium term incentive plan payment was agreed by the Remuneration Committee for the year ending 31 December 2021 and the amounts accrued by Director will be paid in two equal amounts in 2022 and 2023.

Mark Bogard and Chris Croft are no longer active members of the Group's Pension Scheme and Andrew Barnard has never been a member of the Scheme. Their pension emoluments in 2021 represent monthly cash payments in lieu of contributions to the Scheme.

	2020					
	Salary £'000	Performance bonus £'000	Medium-term incentive plan £'000	Benefits £'000	Pension £'000	Total £'000
Mark Bogard	266	66	39	21	60	452
Andrew Barnard	186	46	22	13	42	309
Chris Croft	178	45	16	19	40	298
	630	157	77	53	142	1,059

b) Non-executive Directors

	2021 Fee £'000
Rodger Hughes	**61**
Patrick Muir	**45**
John Cole	**44**
Fiona Crisp	**37**
Simon Wainwright	**44**
Susan Sharrock Yates	**37**
	268

	2020 Fee £'000
Rodger Hughes	61
John Howard	14
John Cole	43
Fiona Crisp	37
Simon Wainwright	43
Patrick Muir	43
Susan Sharrock Yates	13
	254

During the year, a company for which Patrick Muir is a Director, was paid £28,800 (2020: £31,500) for his services as a Director to Smart Money People Limited, a subsidiary company.

Directors' loans and related party transactions

A register is maintained at the Head Office of the Society, in accordance with the requirements of Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons. The register will be available for inspection at the Society's Head Office during the period of fifteen days up to and including the date of the Annual General Meeting.

There were no outstanding loans with Directors at 31 December 2021 or 31 December 2020.

10. PROVISIONS

a) Provision for impairment losses on loans and advances

GROUP	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2021	**454**	**509**	**221**	–	–	–	**675**	**509**
Provision utilised net of recoveries	–	–	–	–	–	–	–	–
Credit for the year	**(40)**	**(358)**	**(221)**	–	–	–	**(261)**	**(358)**
At 31 December 2021	**414**	**151**	–	–	–	–	**414**	**151**

SOCIETY	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000	Individually identified £'000	Collectively identified £'000
At 1 January 2021	**367**	**476**	**221**	–	–	–	**588**	**476**
Provision utilised net of recoveries	**69**	–	–	–	–	–	**69**	–
Credit for the year	**(32)**	**(333)**	**(221)**	–	–	–	**(253)**	**(333)**
At 31 December 2021	**404**	**143**	–	–	–	–	**404**	**143**

	GROUP							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	596	418	101	–	–	–	697	418
Provision utilised net of recoveries	(142)	–	–	–	–	–	(142)	–
Charge for the year	–	91	120	–	–	–	120	91
At 31 December 2020	454	509	221	–	–	–	675	509

	SOCIETY							
	Loans fully secured on residential property		Loans fully secured on land		Other loans		Total	
	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified	Individually identified	Collectively identified
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	369	385	101	–	–	–	470	385
Provision utilised net of recoveries	–	–	–	–	–	–	–	–
Charge for the year	(2)	91	120	–	–	–	118	91
At 31 December 2020	367	476	221	–	–	–	588	476

Where possible, forbearance measures are offered to assist borrowers experiencing financial difficulties. Included within provisions for impairment losses on loans and advances are provisions for £200 in relation to 32 accounts under forbearance (2020: £367,000; 52 accounts). Of this, £200 relates to the 15 Society customers (2020: £297,000; 35 customers) currently being helped by such measures (note 29).

b) Provisions for liabilities – FSCS compensation costs levy

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
At 1 January		–	(40)	–	(40)
Amounts repaid	28	–	35	–	35
Charge for the year	28	–	5	–	5
At 31 December		–	–	–	–

11. TAX CHARGE

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Current tax		**(3,535)**	(131)	**(3,527)**	(131)
Adjustment in respect of prior years		**(7)**	(4)	**(7)**	(4)
Deferred tax	12	**(467)**	(952)	**139**	(491)
Adjustment in respect of prior years	12	**8**	(3)	**8**	(3)
Total tax charge		**(4,001)**	(1,090)	**(3,387)**	(629)
The total tax charge for the year differs from that calculated using the UK standard rate of corporation tax. The differences are explained below:					
Tax on profit at the standard rate of corporation tax of 19% (2020: 19%)		**(4,284)**	(1,409)	**(3,665)**	(787)
Other items not deductible for tax		**(12)**	(6)	**(6)**	(6)
Non-taxable income		**–**	(21)	**–**	–
Adjustment in respect of prior years		**1**	(7)	**1**	(7)
Corporation and deferred tax rate differences		**27**	206	**16**	92
Tax charge associated with items recognised in other comprehensive income		**267**	147	**267**	79
Tax charge for the year		**(4,001)**	(1,090)	**(3,387)**	(629)
Tax recognised directly in other comprehensive income					
Tax on available-for-sale assets					
Corporation tax		**–**	(25)	**–**	(25)
Deferred tax	12	**331**	(282)	**331**	(282)
		331	(307)	**331**	(307)
Tax on retirement benefit obligations					
Corporation tax		**267**	68	**267**	68
Deferred tax	12	**(432)**	599	**(432)**	599
		(165)	667	**(165)**	667
		166	360	**166**	360

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) has been substantively enacted. This will increase the Society's future current tax charge accordingly. The deferred tax asset at 31 December 2021 has been calculated taking into account this future change in rate.

12. DEFERRED TAX

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Movement on deferred tax					
At 1 January		**1,015**	1,653	**337**	461
Income statement charge	11	**(459)**	(955)	**147**	(494)
Recognised directly in other comprehensive income	11	**(101)**	317	**(101)**	317
Losses transferred		**–**	–	**–**	53
At 31 December		**455**	1,015	**383**	337
The deferred tax asset is attributable to the following items:					
FRS 102 transitional adjustments		**203**	228	**145**	163
Pension and other post retirement benefits		**576**	921	**576**	921
AFS timing differences		**(361)**	(692)	**(361)**	(692)
Other timing differences		**37**	(42)	**23**	(63)
Trading losses		**–**	600	**–**	8
		455	1,015	**383**	337

The FRS 102 transitional adjustments reverse over the next three years and the expected reversal in 2022 is £57,000 in the Group and £41,000 in the Society.

13. LIQUID ASSETS

a) Cash in hand and balances with the Bank of England

Included within cash in hand and balances with the Bank of England of £315,975,000 is £63,600,000 (2020: £108,224,000) of cash collateral pledged against derivative financial instruments and £4,037,000 (2020: £3,739,000) of cash held at the Bank of England as a mandatory cash ratio deposit.

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
b) Loans and advances to credit institutions				
Repayable on demand	**500**	817	**100**	491
c) Debt securities				
Gilts	**120,730**	125,233	**120,730**	125,233
Multilateral Development Banks	**4,042**	4,114	**4,042**	4,114
	124,772	129,347	**124,772**	129,347
Debt securities have remaining maturities as follows:				
Accrued interest	**827**	883	**827**	883
In not more than one year	**13,122**	16,360	**13,122**	16,360
In more than one year	**110,823**	112,104	**110,823**	112,104
	124,772	129,347	**124,772**	129,347
Debt securities analysed, excluding accrued interest				
Transferable securities:				
Listed on a recognised investment exchange	**123,945**	128,464	**123,945**	128,464

Included within the debt securities analysis are debt securities that are pledged as collateral for derivative and other financial transactions. As at 31 December 2021, the Group and Society had pledged listed debt securities with a market value of £41,000,000 (2020: £51,049,000).

Also included within the debt securities analysis are debt securities with a market value of £5,051,000 (2020: £5,161,000) which have been sold subject to a commitment to repurchase them.

The Directors consider that all debt securities are available for sale and have therefore been treated as such in the Statement of Financial Position.

	Group 2021	Group 2020	Society 2021	Society 2020
Movements in the year on debt securities are analysed as follows:				
At 1 January	**128,464**	137,398	**128,464**	137,398
Additions	**20,447**	4,301	**20,447**	4,301
Disposals and maturities	**(17,987)**	(14,037)	**(17,987)**	(14,037)
Amortisation of premium	**(1,785)**	(2,142)	**(1,785)**	(2,142)
Change in fair value adjustment for hedged risk	**(2,997)**	1,565	**(2,997)**	1,565
Net (loss)/gain from changes in fair value recognised in other comprehensive income	**(2,197)**	1,379	**(2,197)**	1,379
At 31 December	**123,945**	128,464	**123,945**	128,464

14. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments held at 31 December 2021 are set out below.

	GROUP			SOCIETY		
	Notional principal amount	**Fair value – Assets**	**Fair value – Liabilities**	**Notional principal amount**	**Fair value – Assets**	**Fair value – Liabilities**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2021						
Derivatives designated as fair value hedges						
Interest rate swaps	**967,878**	**9,501**	**(94,560)**	**967,878**	**9,501**	**(94,560)**
	967,878	**9,501**	**(94,560)**	**967,878**	**9,501**	**(94,560)**
Unhedged derivatives						
Interest rate swaps	**90,600**	**243**	**(134)**	**90,600**	**243**	**(134)**
Basis swaps	**64,000**	**10**	**(10)**	**64,000**	**10**	**(10)**
Embedded derivatives	**–**	**–**	**(13,491)**	**–**	**–**	**(7,477)**
	154,600	**253**	**(13,635)**	**154,600**	**253**	**(7,621)**
Total derivative assets/(liabilities)	**1,122,478**	**9,754**	**(108,195)**	**1,122,478**	**9,754**	**(102,181)**

	GROUP			SOCIETY		
	Notional principal amount	Fair value – Assets	Fair value – Liabilities	Notional principal amount	Fair value – Assets	Fair value – Liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2020						
Derivatives designated as fair value hedges						
Interest rate swaps	917,191	36	(146,805)	917,191	36	(146,805)
	917,191	36	(146,805)	917,191	36	(146,805)
Unhedged derivatives						
Interest rate swaps	41,500	–	(140)	41,500	–	(140)
Basis swaps	433,500	319	(2)	433,500	319	(2)
Embedded derivatives	–	–	(19,344)	–	–	(10,797)
	475,000	319	(19,486)	475,000	319	(10,939)
Total derivative assets/(liabilities)	1,392,191	355	(166,291)	1,392,191	355	(157,744)

Included in the Group's hedged interest rate swaps is a balance guarantee swap to hedge the interest rate exposure on the lifetime mortgages. The valuation of the swap at 31 December 2021 was a liability of £90m (2020: £125m).

As at 31 December 2021, £104,175,000 (2020: £159,274,000) of cash and securities was pledged as collateral against derivative financial instruments.

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 Phase 1 amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They were effective for periods beginning on or after 1 January 2020. The Society chose to adopt the amendments early. In 2020, the IASB issued 'Interest Rate Benchmark Reform – Phase 2' (the Phase 2 Amendment) which was effective from 1 January 2021, with early adoption permitted. The amendment provides practical relief from certain requirements in the standards to ease adoption of alternative interest rate benchmarks. The reliefs relate to modifications of financial instruments, lease contracts or hedge relationships when a benchmark interest rate is replaced with a new alternative benchmark interest rate. The Society chose not to adopt this amendment early, but have taken advantage of the relief during 2021.

Under the reforms, LIBOR will not be sustained after the end of 2021. Historically, the variable rate paid or received on interest rate swap contracts used by the Society has been 3 month LIBOR. The Society has therefore completed a project during 2021 to transition away from LIBOR to using Sterling Overnight Index Average ("SONIA") as the reference rate for the variable leg of swaps. This transition was achieved through the cessation of the use of LIBOR swaps for new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and the replacement of existing LIBOR swaps that extended beyond the end of 2021 with new SONIA based swaps. The Society did not have to rely on the fall back clauses within swap contracts. At 31 December 2021, the Society had £71.1m of LIBOR swaps remaining on its balance sheet, £5.5m of which were still in a hedging relationship, and £64m of LIBOR basis swaps. All these swaps were in their final quarterly coupon period and will mature by 31 March 2022. The Society considers that its hedge relationships are no longer affected by uncertainty driven by IBOR reform and therefore the formal hedge documentation has been amended to reflect the changes required by IBOR reform.

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

	GROUP	
	2021	2020
	£'000	£'000
Notional value of LIBOR swap contracts used in hedges	**5,500**	821,180
Notional value of SONIA swap contracts used in hedges	**962,378**	96,011
Total notional value of swap contracts used in hedges held at 31 December	**967,878**	917,191
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	**-**	112,732
Notional value of LIBOR swap contracts used in hedges which mature after 2021	**5,500**	708,448
	5,500	821,180
Carrying value of mortgages hedged by LIBOR swap contracts which mature before the end of 2021	**-**	81,891
Carrying value of mortgages hedged by LIBOR swap contracts which mature after 2021	**5,484**	581,931
	5,484	663,822

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

15. LOANS AND ADVANCES TO CUSTOMERS

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Loans and advances to customers net of provisions are analysed as follows:					
Loans fully secured on residential property		**1,742,538**	1,690,813	**1,673,739**	1,616,515
Loans fully secured on land		**6,021**	8,448	**6,021**	8,448
		1,748,559	1,699,261	**1,679,760**	1,624,963
Fair value adjustment for hedged risk		**117,715**	169,388	**96,646**	141,002
		1,866,274	1,868,649	**1,776,406**	1,765,965
Loans and advances to customers have remaining maturities from the Statement of Financial Position date as follows:					
Repayable on call and at short notice		**1,270**	2,071	**-**	-
In not more than three months		**3,377**	1,698	**3,376**	1,544
In more than three months but not more than one year		**23,245**	24,384	**21,812**	23,383
In more than one year but not more than five years		**223,146**	174,575	**217,000**	166,362
In more than five years		**1,494,485**	1,494,391	**1,435,295**	1,432,325
Effective interest rate adjustment		**3,601**	3,326	**2,824**	2,413
Fair value adjustment for hedged risk		**117,715**	169,388	**96,646**	141,002
Provision for impairment losses on loans and advances	10a	**(565)**	(1,184)	**(547)**	(1,064)
		1,866,274	1,868,649	**1,776,406**	1,765,965

Included within the fair value adjustment for hedged risk is an amount relating to the hedged lifetime mortgage portfolio. For the Group this is £125m (2020: 157m) and for the Society this is £104m (2020: 128m).

This maturity analysis assumes that loans and advances run for their full agreed term or, in the case of lifetime loans, for the actuarial life expectancy of the borrower. In practice, loans seldom continue to the maturity date and, therefore, the actual repayment profile of loans is likely to be significantly different from that disclosed above.

16. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

a) Movements in the year

	SOCIETY		
	Shares and reserves of subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January 2021	1,574	108,202	109,776
Movement in fair value hedge adjustment	–	(7,319)	(7,319)
Interest on loan	–	10	10
Share of profit of subsidiary LLP	298	–	298
Distribution from subsidiary LLP	(200)	–	(200)
Net repayment	–	(6,290)	(6,290)
At 31 December 2021	1,672	94,603	96,275

The loan made by the Society to a subsidiary to fund the subsidiary's lifetime mortgage portfolio is included in the lifetime mortgages hedge relationship and consequently changes in the fair value hedge adjustment that relate to the loan are recognised as changes in the value of the loan.

b) Subsidiary activities

	Country of registration	Major activities	Class of share held	Society interest
The Society's subsidiary undertakings (which operate in the United Kingdom) are:				
National Counties Financial Services Ltd	England	Dormant	Ordinary	100%
Counties Home Loan Management Ltd	England	Mortgage lending	Ordinary	100%
Family & Arden Homes LLP	England	Property investment	Ordinary	50.01%
Smart Money People Limited	England	Financial services review and research website	Ordinary	100%

The registered office of the subsidiary undertakings is Ebbisham House, 30 Church Street, Epsom, Surrey, KT17 4NL.

17a. PROPERTY, PLANT AND EQUIPMENT

	GROUP			SOCIETY		
	Freehold land and buildings £'000	Equipment, fixtures & fittings and vehicles £'000	Total £'000	Freehold land and buildings £'000	Equipment, fixtures & fittings and vehicles £'000	Total £'000
Cost						
At 1 January 2021	5,374	7,157	12,531	5,374	7,103	12,477
Additions	–	609	609	–	600	600
Disposals	–	–	–	–	–	–
At 31 December 2021	5,374	7,766	13,140	5,374	7,703	13,077
Depreciation						
At 1 January 2021	48	6,258	6,306	48	6,214	6,262
Charge for year	7	394	401	7	383	390
Eliminated on disposals	–	–	–	–	–	–
At 31 December 2021	55	6,652	6,707	55	6,597	6,652
Net book value						
At 31 December 2020	5,326	899	6,225	5,326	889	6,215
At 31 December 2021	5,319	1,114	6,433	5,319	1,106	6,425

The net book value of freehold land and buildings occupied for own activities at 31 December 2021 was for the Group and Society £5,319,000 (2020: £4,907,000).

17b. INTANGIBLE ASSETS

	GROUP			SOCIETY		
	Software £'000	Goodwill £'000	Total £'000	Software £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2021	3,982	1,269	5,251	3,982	–	3,982
Additions	178	–	178	178	–	178
At 31 December 2021	4,160	1,269	5,429	4,160	–	4,160
Amortisation						
At 1 January 2021	3,022	95	3,117	3,022	–	3,022
Charge for year	467	254	721	467	–	467
At 31 December 2021	3,489	349	3,838	3,489	–	3,489
Net book value						
At 31 December 2020	960	1,174	2,134	960	–	960
At 31 December 2021	671	920	1,591	671	–	671

18. INVESTMENT PROPERTY

	GROUP
	Investment property £'000
Cost	
At 1 January 2021	**9,840**
Acquisitions	**833**
Refurbishment costs	**230**
Disposals	**(649)**
Gain on revaluation of investment properties	**331**
At 31 December 2021	**10,585**

	2021 £'000	2020 £'000
Gain on investment properties		
(Loss)/profit on sale of investment properties	**(29)**	131
Gain on revaluation of investment properties	**331**	334
	302	465

The investment property is a portfolio of residential properties that have been acquired by a subsidiary, Family & Arden Homes LLP, for the purpose of rental to residential tenants.

All the property is held at the balance sheet date at fair value, which has been determined using open market valuations provided by a suitably qualified RICS surveyor.

Any contractual obligations to purchase investment property or commitments to refurbish investment property at 31 December 2021 are included in accruals.

19. OTHER ASSETS

	GROUP		SOCIETY	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Sundry debtors	**47**	686	**12**	21
Prepayments and accrued income	**1,134**	978	**1,134**	899
	1,181	1,664	**1,146**	920

20. SHARES

	GROUP		SOCIETY	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Held by individuals				
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**4,527**	8,101	**4,527**	8,101
On demand	**678,401**	665,755	**678,401**	665,755
In not more than three months	**635,028**	604,426	**635,028**	604,426
In more than three months but not more than one year	**204,409**	253,303	**204,409**	253,303
In more than one year but not more than five years	**138,890**	234,036	**138,890**	234,036
	1,661,255	1,765,621	**1,661,255**	1,765,621

This maturity analysis assumes that balances are repayable at the earliest possible date of withdrawal without penalty. Some fixed rate products provide the facility for early access on payment of an interest penalty but, in practice, this facility is seldom utilised.

21. AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**109**	124	**109**	124
In not more than three months	**43,720**	64,522	**43,720**	64,522
In more than three months but not more than one year	**19,577**	102,500	**19,577**	102,500
In more than one year but not more than five years	**220,000**	95,077	**220,000**	95,077
	283,406	262,223	**283,406**	262,223

22. AMOUNTS OWED TO OTHER CUSTOMERS

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Repayable from the date of the Statement of Financial Position in the ordinary course of business:				
Accrued interest	**192**	433	**192**	433
On demand	**3,460**	4,180	**3,460**	4,180
In not more than three months	**60,509**	67,061	**60,509**	67,061
In more than three months but not more than one year	**73,424**	48,650	**73,424**	48,650
	137,585	120,324	**137,585**	120,324

23. OTHER LIABILITIES

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Loans from subsidiary undertakings	**-**	-	**1,000**	1,000
Corporation tax payable	**2,166**	87	**2,157**	87
Other creditors	**8,734**	810	**8,689**	810
Accruals and deferred income	**2,563**	2,371	**2,401**	2,178
	13,463	3,268	**14,247**	4,075

Group and Society other creditors includes £8,171,000 (2020: £nil) owed to derivative counterparties under credit swap agreements.

Group other creditors includes a Government loan of £50,000 received on 4 June 2020 by a subsidiary company, Smart Money People Limited, under the Bounce Back loan scheme. The loan was arranged by Smart Money People Limited before the Society gained full control of the business. The loan has a duration of 6 years, with no repayments due during the first 12 months of the loan. Repayments commenced in June 2021 and the balance outstanding on the loan at 31 December 2021 was £45,269. The loan is interest free for 12 months and after that interest accrues at a rate of 2.5%.

	Group 2021	Group 2020	Society 2021	Society 2020
The bounce back loan is repayable from the Statement of Financial Position date as follows:				
In not more than one year	**10**	5	-	-
In two to five years	**35**	40	-	-
More than five years	**-**	5	-	-
	45	50	-	-

24. RETIREMENT BENEFIT OBLIGATIONS

The Group operates the 'The Pensions Trust 2016 – National Counties Building Society Pension and Life Assurance Scheme' (Scheme), a separate trustee-administered defined benefit pension scheme for staff. The Pension Benefit section of the Scheme was closed to new entrants with effect from 1 May 2007. A replacement Cash Benefit section was introduced from the same date. The Pension Benefit section provides a defined pension to the member, while the Cash Benefit section provides a cash amount which is utilised to provide a pension.

Further service accruals were ceased within the Pension Benefit section from 1 May 2013. At that point all Pension Benefit section members became eligible for the Cash Benefit section. The Cash Benefit section is now closed to new entrants. Employees who have joined the Society after 1 January 2015 are enrolled into a defined contribution scheme – Group Personal Pension Plan.

Under FRS 102, the Group is required to include the assets of any defined benefit scheme within the Statement of Financial Position together with the related liabilities. For the purposes of FRS 102, the Scheme is considered to be a defined benefit scheme and these disclosures therefore relate to this Scheme.

A full actuarial valuation is carried out by a qualified independent actuary every three years. The latest actuarial valuation was carried out as at 30 September 2020. These accounting disclosures are based on the results of that actuarial valuation rolled forward to the reporting date to take account of the passage of time, the accrual of new benefits for active members, membership movements, actual revaluation of deferred benefits, expected benefits paid out of the Scheme and changes in actuarial assumptions between 30 September 2020 and 31 December 2021.

The service cost has been calculated using the Projected Unit method.

	GROUP	
	2021	2020
The principal assumptions used by the actuary were as follows:		
Pension commitments discount rate	**1.81%**	1.45%
Pensionable salaries increase	**3.0%**	3.0%
Pensions in payment increasing in line with RPI or 5% p.a. if less	**3.2%**	2.9%
Pensions in payment increasing in line with RPI or 2.5% p.a. if less	**2.2%**	2.0%
Retail Price Index increase	**3.3%**	2.9%
Consumer Price Index increase	**2.7%**	2.4%

The longevity assumptions for 31 December 2021 are based on 101% of the S3PA year of birth tables adjusted in line with the Continuous Mortality Investigation's 2020 model with a 1.5% long-term rate of improvement in mortality for males and 1.25% for females.

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The number of years' life expectancy from age 65 is as follows:		
Male retiring in 2021	**22.1**	22.6
Female retiring in 2021	**24.5**	24.3
Male retiring in 2041	**23.7**	23.9
Female retiring in 2041	**26.0**	25.5

The pension commitments discount rate used by the Society is derived from the single equivalent discount rate ("SEDR") using the UK Mercer Yield Curve Model which is derived from Corporate bonds with a AA rating as at 31 December 2021.

The Group contributed at the total rate of 18.9% (2020: 18.9%) for the year in respect of the Cash Benefit section of the Scheme, 4.9% of which relates to backdated contributions. Group contributions for the next financial year, based on contribution rates and membership at 31 December 2021 are estimated at £770,000.

	GROUP	
	2021	2020
	£'000	£'000
The amounts recognised in the Statement of Financial Position are determined as follows:		
Present value of defined benefit obligation	**(35,689)**	(36,842)
Fair value of scheme assets	**35,804**	31,996
Defined benefit asset/(liability) in the Statement of Financial Position	**115**	(4,846)
Reconciliation of opening and closing balances of the defined benefit obligation:		
Defined benefit obligation at 1 January	**36,842**	31,666
Current service cost	**635**	661
Interest expense	**531**	665
Contributions by scheme participants	**124**	134
Actuarial (gain)/loss	**(1,228)**	4,525
Benefits paid	**(1,215)**	(809)
Defined benefit obligation at 31 December	**35,689**	36,842
Reconciliation of opening and closing balances of the fair value of scheme assets:		
Fair value of scheme assets at 1 January	**31,996**	29,972
Interest income	**458**	633
Return on assets, excluding interest income	**(360)**	1,013
Contributions by the employer	**4,948**	1,244
Contributions by scheme participants	**124**	134
Benefits paid	**(1,215)**	(809)
Scheme administrative cost	**(147)**	(191)
Fair value of scheme assets at 31 December	**35,804**	31,996

The actual return on the Scheme assets over the period ending 31 December 2021 was £98,000.

	GROUP	
	2021	2020
	£'000	£'000
Analysis of amount charged in the Income Statement		
Current and past service cost and expenses	**782**	852
Total operating charge (included within administrative expenses)	**782**	852
Analysis of net return on scheme		
Net interest cost	**73**	32
Net interest cost being the pension scheme finance charge	**73**	32
Analysis of amount recognised in the Statements of Comprehensive Income		
Return on assets, excluding interest income	**(360)**	1,013
Actuarial gain/(loss) arising on the scheme liabilities	**1,228**	(4,525)
Actuarial gain/(loss) recognised in other comprehensive income	**868**	(3,512)
Assets		
The fair values of the assets in the scheme at 31 December were as follows:		
UK and overseas equities	**3,867**	6,546
Diversified growth funds	**7,870**	4,227
Corporate bonds	**1,087**	3,103
Government bonds	**9,402**	7,548
Cash	**5,232**	278
Other	**1,010**	1,404
Purchased annuity contracts	**7,336**	8,890
Total scheme assets	**35,804**	31,996

Purchased annuity contracts are included at the same value in both the assets and liabilities of the Scheme. These contracts are therefore neutral to the Scheme accounting position.

The last full actuarial valuation carried out as at 30 September 2020 identified a funding shortall in the Scheme which was to be met by additional contributions from the Society of a minimum of £1,000,000 per annum for the period from 1 December 2021 to 30 June 2027 (pro-rata for part years). In addition, the Society agreed to pay £163,000 each year towards expenses of the Scheme. Following the results of the valuation, the Board of the Society agreed to make a £4,500,000 additional contribution to the Scheme in December 2021.

On 26 October 2018 a court ruling confirmed that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. An allowance of 0.6% is included in the liabilities to allow for the expected impact of this element of GMP equalisation. Following on from the original ruling in 2018, a further High Court ruling on 20 November 2020 provided clarification on the obligations of pension plan trustees to equalise past transfer values allowing for GMP equalisation. The allowance only considered current members who had GMP liabilities within the scheme (not members who have died without a spouse or members who have transferred out for example). The approximate impact of equalising past transfers from the Scheme has been estimated as being very unlikely to be over £20,000 and as such no allowance has been made for this in the year end valuation.

The Society has increased the Inflation Risk Premium to 0.3% from 0.2% to reflect the significant increase in the gilt market-implied RPI price inflation and the higher level of demand for inflation protection in the UK. The impact of the change in this estimate it to increase the Defined Benefit Liability by approximately £360,000.

25. RESERVES – GENERAL RESERVES

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 January	**113,598**	110,216	**115,658**	114,992
Profit for the financial year	**18,548**	6,327	**15,905**	3,511
Other comprehensive gain/(loss) for the year	**703**	(2,845)	**703**	(2,845)
Distribution to non-controlling interest	**(200)**	(100)	-	-
At 31 December	**132,649**	113,598	**132,266**	115,658

26. RESERVES – AVAILABLE-FOR-SALE RESERVE

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 January	**2,948**	1,876	**2,948**	1,876
Net (loss)/gain from changes in fair value	**(1,866)**	1,072	**(1,866)**	1,072
At 31 December	**1,082**	2,948	**1,082**	2,948

27. CASH AND CASH EQUIVALENTS

		GROUP		SOCIETY	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Cash in hand and balances with the Bank of England	13a	**315,975**	419,073	**315,975**	419,073
Loans and advances to credit institutions	13b	**500**	817	**100**	491
		316,475	419,890	**316,075**	419,564

28. FINANCIAL COMMITMENTS

a) Financial Services Compensation Scheme (“FSCS”)

As a regulated UK deposit-taker, the Society, in common with all regulated UK deposit-takers, pays levies based on its share of deposits protected by the FSCS to enable the scheme to meet claims against it. There are two FSCS levies – a management expenses levy (“MEL”) and a compensation costs levy (“CCL”). The MEL covers the running costs of the scheme and the CCL covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

In May 2013, the International Accounting Standards Board issued an interpretation to clarify the accounting treatment for levies in the financial statements of an entity subject to such levies. The interpretation explains that there is no obligation to recognise the liability for a levy until the activity that triggers payment occurs. Applying the interpretation to the FSCS levies, the liability should only be recognised after the trigger date of 1 April. As at the Statement of Financial Position date, the CCL liability accrued relates to the 12 month period to 31 March 2022 triggered at 1 April 2021. No liability for the levies is recognised for scheme years beyond March 2022.

The Society has not paid any FSCS invoices for the CCL levy’s during the year or prior year and has no liability to a CCL levy at the year end or prior year end.

b) It is the intention of the Society to continue to support fully its subsidiary undertakings.

c) Capital commitments at 31 December, for which no provision has been made in the Accounts, were as follows:	GROUP		SOCIETY	
	2021 £’000	2020 £’000	**2021 £’000**	2020 £’000
Capital expenditure contracted but not provided for:	**–**	–	**–**	–

d) Commitments

	Group 2021 £’000	Group 2020 £’000	Society 2021 £’000	Society 2020 £’000
Irrevocable undrawn loan facilities to borrowers at year end	**5,350**	5,548	**5,350**	5,548
Commitment to repurchase assets sold under repo agreements	**5,051**	5,161	**5,051**	5,161
Commitment to purchase investment property	**–**	703	**–**	703
	10,401	11,412	**10,401**	11,412

29. FINANCIAL INSTRUMENTS

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

The Group has an established formal structure for managing risk, including setting risk appetite, risk limits, reporting lines, mandates, policies and other relevant control procedures. This structure is reviewed regularly by the Asset and Liability Committee ("ALCO"), which is charged with the responsibility for managing and controlling the Statement of Financial Position and the use of financial instruments for risk management purposes.

DERIVATIVES

Instruments used for risk management purposes include derivative financial instruments ("derivatives"), which are contracts or agreements whose current value at the reporting date is related to the change in the underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Group to reduce the risk of loss arising from changes in interest rates or other market related factors and are not used in trading activity or for speculative purposes.

The table below describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks.

Activity	Risk	Managed by
Fixed rate mortgage lending	Increase in interest rates	Fixed interest rate swaps
Fixed rate savings products	Decrease in interest rates	Fixed interest rate swaps
Managing basis risk	Non-parallel interest rate shifts	Basis swaps
Fixed rate liquidity	Increase in interest rates	Fixed interest rate swaps

The most significant derivatives used by the Group in managing its risks are interest rate swaps which protect the Group from exposures to fixed rate mortgage lending and fixed rate savings products. An interest rate swap contract which is based on a notional principal amount, exchanges one set of interest rate cashflows for another for a set duration agreed between the parties at the commencement of the contract. Entering into these contracts allows the Group to manage the interest rate risk.

The most significant derivative contract that the Group has entered into is a fixed interest rate swap to hedge its exposure to the fixed interest rate Lifetime Mortgage book. This swap includes an upper and lower contractual boundary around the expected future value of the mortgage book over time.

Classification of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at either fair value or amortised cost. The following tables show the classification of the Group's and Society's financial assets and liabilities:

	GROUP						
Carrying values as at 31 December 2021	**Held at amortised cost**		**Held at fair value**				
	Loans and receivables £'000	**Other financial assets and liabilities at amortised cost £'000**	**Available for sale £'000**	**Investment property £'000**	**Derivatives designated as fair value hedges £'000**	**Unmatched derivatives £'000**	**Total £'000**
Assets							
Cash in hand and balances with the Bank of England	–	315,975	–	–	–	–	315,975
Loans and advances to credit institutions	500	–	–	–	–	–	500
Debt securities	–	–	124,772	–	–	–	124,772
Derivative financial instruments	–	–	–	–	9,501	253	9,754
Loans and advances to customers	1,866,274	–	–	–	–	–	1,866,274
Total financial assets	1,866,774	315,975	124,772	–	9,501	253	2,317,275
Non financial assets	–	9,775	–	10,585	–	–	20,360
Total Assets	1,866,774	325,750	124,772	10,585	9,501	253	2,337,635
Liabilities							
Shares	–	1,661,255	–	–	–	–	1,661,255
Amounts due to credit institutions	–	283,406	–	–	–	–	283,406
Amounts owed to other customers	–	137,585	–	–	–	–	137,585
Derivative financial instruments	–	–	–	–	94,560	13,635	108,195
Total financial liabilities	–	2,082,246	–	–	94,560	13,635	2,190,441
Non financial liabilities	–	13,463	–	–	–	–	13,463
Total Liabilities	–	2,095,709	–	–	94,560	13,635	2,203,904

Carrying values as at 31 December 2020	GROUP						
	Held at amortised cost		Held at fair value				
	Loans and receivables £'000	Other financial assets and liabilities at amortised cost £'000	Available for sale £'000	Investment property £'000	Derivatives designated as fair value hedges £'000	Unmatched derivatives £'000	Total £'000
Assets							
Cash in hand and balances with the Bank of England	–	419,073	–	–	–	–	419,073
Loans and advances to credit institutions	817	–	–	–	–	–	817
Debt securities	–	–	129,347	–	–	–	129,347
Derivative financial instruments	–	–	–	–	36	319	355
Loans and advances to customers	1,868,649	–	–	–	–	–	1,868,649
Total financial assets	1,869,466	419,073	129,347	–	36	319	2,418,241
Non financial assets	–	11,038	–	9,840	–	–	20,878
Total Assets	1,869,466	430,111	129,347	9,840	36	319	2,439,119
Liabilities							
Shares	–	1,765,621	–	–	–	–	1,765,621
Amounts due to credit institutions	–	262,223	–	–	–	–	262,223
Amounts owed to other customers	–	120,324	–	–	–	–	120,324
Derivative financial instruments	–	–	–	–	146,805	19,486	166,291
Total financial liabilities	–	2,148,168	–	–	146,805	19,486	2,314,459
Non financial liabilities	–	8,114	–	–	–	–	8,114
Total Liabilities	–	2,156,282	–	–	146,805	19,486	2,322,573

Carrying values as at 31 December 2021	SOCIETY					
	Held at amortised cost		Held at fair value			
	Loans and receivables	Other financial assets and liabilities at amortised cost	Available for sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash in hand and balances with the Bank of England	–	315,975	–	–	–	315,975
Loans and advances to credit institutions	100	–	–	–	–	100
Debt securities	–	–	124,772	–	–	124,772
Derivative financial instruments	–	–	–	9,501	253	9,754
Loans and advances to customers	1,776,406	–	–	–	–	1,776,406
Investment in subsidiary undertakings and associates	–	96,275	–	–	–	96,275
Total financial assets	1,776,506	412,250	124,772	9,501	253	2,323,282
Non financial assets	–	8,740	–	–	–	8,740
Total Assets	1,776,506	420,990	124,772	9,501	253	2,332,022
Liabilities						
Shares	–	1,661,255	–	–	–	1,661,255
Amounts due to credit institutions	–	283,406	–	–	–	283,406
Amounts owed to other customers	–	137,585	–	–	–	137,585
Derivative financial instruments	–	–	–	94,560	7,621	102,181
Total financial liabilities	–	2,082,246	–	94,560	7,621	2,184,427
Non financial liabilities	–	14,247	–	–	–	14,247
Total Liabilities	–	2,096,493	–	94,560	7,621	2,198,674

Carrying values as at 31 December 2020	SOCIETY					
	Held at amortised cost		Held at fair value			
	Loans and receivables	Other financial assets and liabilities at amortised cost	Available for sale	Derivatives designated as fair value hedges	Unmatched derivatives	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash in hand and balances with the Bank of England	–	419,073	–	–	–	419,073
Loans and advances to credit institutions	491	–	–	–	–	491
Debt securities	–	–	129,347	–	–	129,347
Derivative financial instruments	–	–	–	36	319	355
Loans and advances to customers	1,765,965	–	–	–	–	1,765,965
Investment in subsidiary undertaking	–	109,776	–	–	–	109,776
Total financial assets	1,766,456	528,849	129,347	36	319	2,425,007
Non financial assets	–	8,432	–	–	–	8,432
Total Assets	1,766,456	537,281	129,347	36	319	2,433,439
Liabilities						
Shares	–	1,765,621	–	–	–	1,765,621
Amounts due to credit institutions	–	262,223	–	–	–	262,223
Amounts owed to other customers	–	120,324	–	–	–	120,324
Derivative financial instruments	–	–	–	146,805	10,939	157,744
Total financial liabilities	–	2,148,168	–	146,805	10,939	2,305,912
Non financial liabilities	–	8,921	–	–	–	8,921
Total Liabilities	–	2,157,089	–	146,805	10,939	2,314,833

Fair values of financial assets and liabilities

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

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

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fair values of financial assets and liabilities carried at fair value

The tables below show the fair values of the Group's and Society's financial assets and liabilities analysed according to the fair value hierarchy.

	GROUP				
	Carrying value	**Fair value Level 1**	**Fair value Level 2**	**Fair value Level 3**	**Fair value Total**
As at 31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets					
Debt securities	**124,772**	**124,772**	–	–	**124,772**
Derivative financial instruments	**9,754**	–	**9,754**	–	**9,754**
	134,526	**124,772**	**9,754**	–	**134,526**
Liabilities					
Derivative financial instruments	**108,195**	–	**4,502**	**103,693**	**108,195**
	108,195	–	**4,502**	**103,693**	**108,195**

	GROUP				
	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
As at 31 December 2020	£'000	£'000	£'000	£'000	£'000
Assets					
Debt securities	129,347	129,347	–	–	129,347
Derivative financial instruments	355	–	355	–	355
	129,702	129,347	355	–	129,702
Liabilities					
Derivative financial instruments	166,291	–	21,586	144,705	166,291
	166,291	–	21,586	144,705	166,291

As at 31 December 2021	SOCIETY Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
Assets					
Debt securities	**124,772**	**124,772**	–	–	**124,772**
Derivative financial instruments	**9,754**	–	**9,754**	–	**9,754**
	134,526	**124,772**	**9,754**	–	**134,526**
Liabilities					
Derivative financial instruments	**102,181**	–	**4,502**	**97,679**	**102,181**
	102,181	–	**4,502**	**97,679**	**102,181**

As at 31 December 2020	SOCIETY Carrying value £'000	Fair value Level 1 £'000	Fair value Level 2 £'000	Fair value Level 3 £'000	Fair value Total £'000
Assets					
Debt securities	129,347	129,347	–	–	129,347
Derivative financial instruments	355	–	355	–	355
	129,702	129,347	355	–	129,702
Liabilities					
Derivative financial instruments	157,744	–	21,586	136,158	157,744
	157,744	–	21,586	136,158	157,744

The main valuation techniques employed by the Group to establish the fair values of financial assets and liabilities are set out below:

Debt securities

Level 1: Market prices have been used to determine the fair value of listed debt securities.

Derivative financial instruments

Level 2: Interest rate swaps – the valuation of interest rate swaps is based on the 'present value' method. Expected interest cash flows are discounted using the prevailing SONIA yield curves. The SONIA yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments. All swaps are collateralised and therefore no adjustment is required for credit risk in the fair value of derivatives.

Level 3: Lifetime Mortgage swap and NNEG embedded derivative – the fair value of these derivatives is calculated using internal models which include a valuation of the upper and lower boundary in the Lifetime Mortgage swap and take into account predictions of future drawings, interest rates, mortality/morbidity, early redemption, HPI growth and HPI volatility.

CREDIT RISK

Credit risk can be described as the risk of customers or counterparties being unable to meet their financial obligations to the Group as they become due.

The Group is exposed to this risk through its lending to:

- Individuals – residential mortgages, including Buy to Let
- Commercial lending
- Wholesale counterparties (including other financial institutions). This occurs within the treasury portfolio assets, where credit risk arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes. It also arises from the use of derivatives and repos, but here collateralisation received reduces the risk substantially.
- Non wholly owned subsidiaries
- Associate companies

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including the impact of Covid 19 lock downs and payment holidays, rising unemployment, worsening household finances and tightening in the UK property market, resulting in declining property values, could affect the recoverability and value of the Group's assets and influence its financial performance. A prolonged economic downturn and the possible continuation of falls in property values (either residential or commercial) could affect the level of impairment losses currently recognised.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective policies and procedures to identify, monitor, control, mitigate and manage credit risk within the Group's risk appetite.

	GROUP		SOCIETY	
The Group's maximum credit risk exposure is detailed below:	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Cash in hand and balances with the Bank of England	**315,965**	419,064	**315,965**	419,064
Loans and advances to credit institutions	**500**	817	**100**	491
Debt securities	**124,772**	129,347	**124,772**	129,347
Derivative financial instruments	**9,754**	355	**9,754**	355
Loans and advances to customers	**1,744,958**	1,695,935	**1,676,936**	1,622,550
Loan to, and profit share from, Family and Arden Homes LLP*	-	-	**10,361**	9,963
Total Statement of Financial Position exposure	**2,195,949**	2,245,518	**2,137,888**	2,181,770
Statement of Financial Position exposure – mortgage commitments	**5,350**	5,548	**5,350**	5,548
	2,201,299	2,251,066	**2,143,238**	2,187,318
Loans and advances to customers				
Concentration by loan type **Loans fully secured on residential property**				
Owner Occupied and Buy to Let	**1,576,037**	1,515,913	**1,547,365**	1,482,217
Lifetime	**163,465**	172,537	**124,097**	132,728
Other loans				
Loans fully secured on land – commercial	**6,021**	8,669	**6,021**	8,669
Gross balances	**1,745,523**	1,697,119	**1,677,483**	1,623,614
Impairment provisions	**(565)**	(1,184)	**(547)**	(1,064)
Effective interest rate adjustment	**3,601**	3,326	**2,824**	2,413
Fair value adjustments	**117,715**	169,388	**96,646**	141,002
	1,866,274	1,868,649	**1,776,406**	1,765,965

*Non-wholly owned Subsidiary.

	GROUP		SOCIETY	
	2021	2020	2021	2020
	%	%	%	%
Geographical analysis of gross mortgage balances				
North	**2**	2	**2**	2
North East	**5**	4	**5**	5
North West	**5**	5	**5**	5
East Midlands	**3**	3	**3**	3
West Midlands	**5**	4	**5**	5
East Anglia	**3**	3	**3**	3
South East	**65**	67	**65**	65
South West	**10**	10	**10**	10
Wales	**2**	2	**2**	2
	100	100	**100**	100
Indexed loan to value distribution of Owner Occupied and Buy to Let gross mortgage balances				
Greater than 95%	–	–	–	–
90% – 95%	–	–	–	–
85% – 90%	–	–	–	–
75% – 85%	**2**	1	**2**	1
50% – 75%	**34**	40	**34**	40
<50%	**64**	59	**64**	59
Total	**100**	100	**100**	100
Average loan to value of Owner Occupied and Buy to Let mortgage portfolio	**44**	48	**42**	44
Indexed loan to value distribution of Lifetime gross mortgage balances				
Greater than 95%	**1**	1	**1**	1
90% – 95%	–	–	–	–
85% – 90%	**1**	–	–	–
75% – 85%	**1**	1	–	–
50% – 75%	**20**	22	**9**	15
<50%	**77**	76	**90**	84
Total	**100**	100	**100**	100
Average loan to value of Lifetime Mortgage portfolio	**48**	46	**40**	41

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	%	%	**%**	%
Indexed loan to value distribution of Commercial gross mortgage loan balances				
Greater than 95%	–	–	–	–
90% – 95%	–	–	–	–
85% – 90%	–	–	–	–
75% – 85%	–	–	–	–
50% – 75%	–	16	–	16
<50%	**100**	84	**100**	84
Total	**100**	100	**100**	100
Average loan to value of Commercial mortgage portfolio	**27**	39	**27**	39

The Group's average indexed loan to value at the year end date is 40% (2020: 44%).

The table below provides further information on the Group's residential loans and advances to customers by payment due status at the year end:

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Loans neither past due or impaired	**1,710,284**	1,651,466	**1,644,887**	1,582,677
Past due but not impaired				
Past due to 3 months	**19,540**	15,547	**18,328**	13,538
Past due 3 to 6 months	**1,157**	2,765	**1,126**	2,518
Past due 6 to 12 months	**2,687**	3,035	**2,339**	1,969
Past due over 12 months	**1,328**	960	**571**	806
Possessions	–	–	–	–
Impaired				
Not past due	**1,181**	2,749	**1,181**	2,455
Past due to 3 months	**727**	5,789	**655**	5,455
Past due 3 to 6 months	–	3,113	–	2,799
Past due 6 to 12 months	**2,160**	2,619	**1,937**	2,321
Past due over 12 months	–	–	–	–
Possessions	**438**	407	**438**	407
	1,739,502	1,688,450	**1,671,462**	1,614,945

Loans that are past due are shown in the table above as not impaired where no impairment provision is required.

The following table indicates assets obtained by taking possession of collateral held against residential loans and advances to customers:

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Residential property	**438**	452	**438**	452
	438	452	**438**	452

The table below provides further information on the Group's commercial loans and advances to customers by payment due status at the year end:

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Loans neither past due or impaired	**5,704**	8,380	**5,704**	8,380
Past due but not impaired				
Not past due	**317**	–	**317**	–
Past due to 3 months	–	–	–	–
Past due 3 to 6 months	–	–	–	–
Past due 6 to 12 months	–	–	–	–
Past due over 12 months	–	–	–	–
Possessions	–	–	–	–
Impaired				
Not past due	–	289	–	289
Past due to 3 months	–	–	–	–
Past due 3 to 6 months	–	–	–	–
Past due 6 to 12 months	–	–	–	–
Past due over 12 months	–	–	–	–
Possessions	–	–	–	–
	6,021	8,669	**6,021**	8,669

Loans that are past due are shown in the table above as not impaired where no impairment provision is required.

No commercial property was held at 31 December 2021 or 31 December 2020 as a result of taking possession of collateral held against commercial loans and advances to customers.

The collateral held consists of properties included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Forbearance strategies and restructured loans

A range of forbearance strategies are employed in order to work with our borrowers to control arrears and, wherever it is in the borrower's best interest, avoid repossession. The agreed strategy will reflect the customer's individual circumstances and will be used in line with industry guidance.

Our approach is based on criteria which, in the judgment of senior management, indicate that repayment is likely to continue. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

Interest is recorded on loans in forbearance on the basis of new contractual terms following restructure.

In March 2020, as a consequence of the impact of Covid-19, the Government, the regulators and all mortgage lenders (including the Society) agreed to offer all borrowers the option of taking a 3 month payment holiday on their mortgage payments if they were experiencing or were reasonably expected to experience payment difficulties. Interest would still accrue on the loans, but the borrowers would not be treated as being in arrears for the missed payments during the agreed payment holiday. In June 2020, the guidance was updated to allow borrowers already on a 3 month payment holiday that was coming to an end, to request an extension of that payment holiday for up to another 3 months, giving 6 months in total. Just over a 1,000 of our Members took the option of a payment holiday and at the end of that period were offered three options to cover the impact of the payment holiday on their mortgage – increase payments over the remaining term of the mortgage; pay a lump sum and resume normal payments or extend the mortgage term for the length of the payment holiday. By 31 December 2020, less than 50 of our Members were still on a payment holiday with the majority of the others resuming payments. Less than 20 Members were offered formal forbearance after the end of the payment holiday as they were unable to resume payments. Members had until 31 March 2021 to request a payment holiday of up to 6 months in total (not necessarily con-current) to cover financial difficulties as a direct consequence of the Coronavirus pandemic. At 31 December 2021, no Members remained on a payment holiday and 5 Members were still receiving formal forebearance as a direct consequence of the Covid-19 pandemic.

The tables below analyse balances of loans and advances to customers where forbearance measures have been applied as at the year end date:

	GROUP			SOCIETY		
As at 31 December 2021	**Number of accounts**	**Gross loans £'000**	**Provision £'000**	**Number of accounts**	**Gross loans £'000**	**Provision £'000**
Temporary arrangement – interest-only	**12**	**2,620**	–	**12**	**2,620**	–
Temporary arrangement – other	**18**	**1,312**	–	**1**	**25**	–
Concession	–	–	–	–	–	–
Extension of mortgage term	**1**	**66**	–	**1**	**66**	–
Interest-only conversion	**1**	**695**	–	**1**	**695**	–
	32	**4,693**	–	**15**	**3,406**	–

	GROUP			SOCIETY		
As at 31 December 2020	Number of accounts	Gross loans £'000	Provision £'000	Number of accounts	Gross loans £'000	Provision £'000
Temporary arrangement – interest-only	22	4,075	8	22	4,075	8
Temporary arrangement – other	29	4,448	290	12	2,671	289
Concession	–	–	–	–	–	–
Extension of mortgage term	1	700	69	1	631	–
Interest–only conversion	–	–	–	–	–	–
	52	9,223	367	35	7,377	297

Loans and advances to credit institutions and debt securities

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is monitored, managed and controlled closely by the Group.

The Group determines that a treasury asset is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of 'significant or prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. At 31 December 2021 and 31 December 2020 none of the Group's treasury investments were either past due or impaired and no impairment charges were required during the year.

The Group has no non-UK exposure in its liquidity portfolio other than to Multilateral Development Banks. The tables below show the relative concentrations of the Group's treasury investment portfolio.

The ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty,or group of counterparties, and to industry sectors. This is monitored daily by the society's Treasury team and reviewed monthly by ALCO.

The Group's policy permits lending to UK central government (which includes the Bank of England), Multilateral Development Banks and banks and building societies approved by ALCO and the Board.

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

	GROUP		SOCIETY	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Concentration by credit grading				
AAA	**4,042**	4,114	**4,042**	4,114
AA	**120,730**	125,758	**120,730**	125,624
A	**500**	292	**100**	100
	125,272	130,164	**124,872**	129,838
Concentration by industry sector				
Banks	**500**	817	**100**	491
Multilateral Development Banks	**4,042**	4,114	**4,042**	4,114
UK Treasury	**120,730**	125,233	**120,730**	125,233
	125,272	130,164	**124,872**	129,838
Concentration by geographic region				
UK	**121,230**	126,050	**120,830**	125,724
Multilateral Development Banks	**4,042**	4,114	**4,042**	4,114
	125,272	130,164	**124,872**	129,838

LIQUIDITY RISK

The Society's principal purpose is to make loans secured by way of mortgage on residential property funded substantially by short-term savings from its Members.

The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging.

In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

The Group's liquidity policy is to maintain sufficient assets in liquid form at all times to ensure that the Group can meet all its liabilities as they fall due and also meet all regulatory liquidity requirements.

The Group manages this risk on a continuous basis through the ALCO and by ensuring compliance with the Liquidity and Financial Risk Management Policies approved by the Board. In practice this results in the Group holding a significant amount of highly liquid assets, mainly UK Gilts, Treasury bills, Multilateral Development Bank securities and deposits with the Bank of England, which are eligible to meet its required liquidity buffer set by the regulator and for use as collateral with derivative counterparties. Day-to-day operational requirements are met from deposits placed on call or overnight with the Bank of England and major banks. The Group also uses repos and reverse repos, which are effectively secured borrowing and lending, in its liquidity management operations.

The Board undertakes a detailed review of its liquidity adequacy under the Individual Liquidity Adequacy Assessment process (ILAAP) and submits this to the PRA for supervisory review. The ILAAP specifies the daily processes that the Society will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three PRA standard scenarios 'name-specific', 'market-wide' and 'combined'.

There are many tests, limits and controls that the Group uses to monitor and manage its liquidity position. In particular these include:

- **Overall Liquidity Adequacy Requirement (OLAR)** – This includes a requirement to maintain sufficient liquid assets to survive a short term stressed outflow and a longer term survival requirement including contingent liquidity.
- **Liquidity Coverage Ratio (LCR)** – The regulatory minimum percentage of buffer assets to net outflows.
- **Future funding period outflows** – Restrictions on the maximum wholesale and retail funding that can be taken in different future time periods to avoid concentrations of potential outflows in any period.

The tables below analyse the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. Loans and advances to customers that have no specific maturity date have been included in the 'More than 5 years' category. The actual repayment profile of loans and advances is likely to be significantly different to that shown in the analysis:

	GROUP						
Residual maturity as at 31 December 2021	**On demand £'000**	**Not more than 3 months £'000**	**More than 3 months but not more than 1 year £'000**	**More than 1 year but not more than 5 years £'000**	**More than 5 years £'000**	**Non defined maturity £'000**	**Total £'000**
Financial assets							
Cash in hand and balances with the Bank of England	315,975	–	–	–	–	–	315,975
Loans and advances to credit institutions	500	–	–	–	–	–	500
Debt securities	–	5,029	8,093	78,222	32,601	827	124,772
Derivative financial instruments	–	8	4	9,264	478	–	9,754
Loans and advances to customers	1,270	3,377	23,245	223,146	1,494,485	120,751	1,866,274
Other assets	–	–	–	–	–	20,360	20,360
	317,745	8,414	31,342	310,632	1,527,564	141,938	2,337,635
Financial liabilities and reserves							
Shares	678,401	635,028	204,409	138,890	–	4,527	1,661,255
Amounts owed to credit institutions	–	43,720	19,577	220,000	–	109	283,406
Amounts owed to other customers	3,460	60,509	73,424	–	–	192	137,585
Derivative financial instruments	–	140	331	2,327	105,397	–	108,195
Other liabilities	–	–	–	–	–	13,463	13,463
Reserves	–	–	–	–	–	133,731	133,731
	681,861	739,397	297,741	361,217	105,397	152,022	2,337,635

Residual maturity as at 31 December 2020	GROUP On demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non defined maturity £'000	Total £'000
Financial assets							
Cash in hand and balances with the Bank of England	419,073	–	–	–	–	–	419,073
Loans and advances to credit institutions	817	–	–	–	–	–	817
Debt securities	–	2,002	14,358	70,190	41,914	883	129,347
Derivative financial instruments	–	29	290	36	–	–	355
Loans and advances to customers	2,071	1,698	24,384	174,575	1,494,391	171,530	1,868,649
Other assets	–	–	–	–	–	20,878	20,878
	421,961	3,729	39,032	244,801	1,536,305	193,291	2,439,119

Financial liabilities and reserves							
Shares	665,755	604,426	253,303	234,036	–	8,101	1,765,621
Amounts owed to credit institutions	–	64,522	102,500	95,077	–	124	262,223
Amounts owed to other customers	4,180	67,061	48,650	–	–	433	120,324
Derivative financial instruments	–	29	836	14,711	150,715	–	166,291
Other liabilities	–	–	–	–	–	8,114	8,114
Reserves	–	–	–	–	–	116,546	116,546
	669,935	736,038	405,289	343,824	150,715	133,318	2,439,119

There is no material difference between the maturity profile for the Group and that for the Society.

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

	GROUP					
31 December 2021	**Repayable on demand £'000**	**Not more than 3 months £'000**	**More than 3 months but not more than 1 year £'000**	**More than 1 year but not more than 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Shares	**675,921**	**646,055**	**202,107**	**138,689**	–	**1,662,772**
Amounts owed to credit institutions	–	**51,304**	**19,815**	**220,713**	–	**291,832**
Amounts owed to other customers	–	**64,114**	**73,660**	–	–	**137,774**
Derivative financial instruments	–	**2,960**	**8,198**	**31,898**	**94,718**	**137,774**
Total liabilities	**675,921**	**764,433**	**303,780**	**391,300**	**94,718**	**2,230,152**
31 December 2020						
Shares	658,715	616,618	253,663	241,624	–	1,770,620
Amounts owed to credit institutions	–	64,670	102,634	95,322	–	262,626
Amounts owed to other customers	–	71,726	48,915	–	–	120,641
Derivative financial instruments	–	3,790	11,080	41,575	111,833	168,278
Total liabilities	658,715	756,804	416,292	378,521	111,833	2,322,165

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

MARKET RISK

The Group is exposed to interest rate risk through a number of potential mismatches. The Group manages this exposure on a continuous basis through the ALCO, within limits set by the Board and using a combination of financial instruments. These mismatches are primarily: interest rate basis risk, where instruments with similar re-pricing characteristics reprice differently e.g. market rates increase more quickly than mortgage rates; yield curve risks, causing assets and liabilities to reprice differently; and repricing mismatches e.g. where there is a mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The latter interest rate sensitivity exposure for the Group, after taking into account derivative hedge contracts entered into by the Society to manage this risk, was as follows:

	GROUP						
At 31 December 2021	Not more than 3 months £'000	More than 3 months but less than 6 months £'000	More than 6 months but less than 1 year £'000	More than 1 year but less than 5 years £'000	More than 5 years £'000	Non–interest bearing £'000	Total £'000
Assets							
Cash in hand and balances with the Bank of England	311,928	–	–	–	–	4,047	315,975
Loans and advances to credit institutions	500	–	–	–	–	–	500
Debt securities	5,028	–	8,063	76,549	30,165	4,967	124,772
Derivative financial instruments	–	–	–	–	–	9,754	9,754
Loans and advances to customers	634,181	44,614	86,276	787,580	192,872	120,751	1,866,274
Other assets	–	–	–	–	–	20,360	20,360
Total assets	951,637	44,614	94,339	864,129	223,037	159,879	2,337,635
Liabilities							
Shares	1,274,815	71,473	138,194	172,246	–	4,527	1,661,255
Amounts owed to credit institutions	268,797	9,500	5,000	–	–	109	283,406
Amounts owed to other customers	58,922	53,674	24,828	–	–	161	137,585
Derivative financial instruments	–	–	–	–	–	108,195	108,195
Other liabilities	–	–	–	–	–	13,463	13,463
Reserves	–	–	–	–	–	133,731	133,731
Total liabilities	1,602,534	134,647	168,022	172,246	–	260,186	2,337,635
Impact of derivative financial instruments	982,378	(45,500)	(77,812)	(664,727)	(194,339)	–	–
Interest rate sensitivity gap	331,481	(135,533)	(151,495)	27,156	28,698	(100,307)	–
Sensitivity to profit and reserves							
Parallel shift of 1%	(414)	507	1,131	(815)	(2,870)	–	(2,461)
Parallel shift of 2%	(828)	1,014	2,262	(1,630)	(5,740)	–	(4,922)

	GROUP						
At 31 December 2020	Not more than 3 months £'000	More than 3 months but less than 6 months £'000	More than 6 months but less than 1 year £'000	More than 1 year but less than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash in hand and balances with the Bank of England	415,325	–	–	–	–	3,748	419,073
Loans and advances to credit institutions	817	–	–	–	–	–	817
Debt securities	2,001	4,132	10,184	66,072	36,742	10,216	129,347
Derivative financial instruments	–	–	–	–	–	355	355
Loans and advances to customers	606,119	47,681	111,652	708,803	222,864	171,530	1,868,649
Other assets	–	–	–	–	–	20,878	20,878
Total assets	1,024,262	51,813	121,836	774,875	259,606	206,727	2,439,119
Liabilities							
Shares	1,265,248	86,736	169,938	235,597	–	8,102	1,765,621
Amounts owed to credit institutions	259,599	1,500	1,000	–	–	124	262,223
Amounts owed to other customers	64,687	30,950	18,700	5,577	–	410	120,324
Derivative financial instruments	–	–	–	–	–	166,291	166,291
Other liabilities	–	–	–	–	–	8,114	8,114
Reserves	–	–	–	–	–	116,546	116,546
Total liabilities	1,589,534	119,186	189,638	241,174	–	299,587	2,439,119
Impact of derivative financial instruments	941,191	(29,600)	(83,132)	(607,443)	(221,016)	–	–
Interest rate sensitivity gap	375,919	(96,973)	(150,934)	(73,742)	38,590	(92,860)	–
Sensitivity to profit and reserves							
Parallel shift of 1%	(470)	364	1,132	2,212	(3,859)	–	(621)
Parallel shift of 2%	(940)	728	2,264	4,424	(7,718)	–	(1,242)

There is no material difference between the interest rate risk profile for the Group and that for the Society.

30. SEGMENTAL ANALYSIS

The Group operates only in the United Kingdom and all its transactions are denominated in Pounds Sterling.

The Group operates as one business and therefore no segmental analysis is relevant.

31. CAPITAL MANAGEMENT

Requirements for the quality and quantity of capital to be held by the Group are set out in the Capital Requirements Directive IV, an EU legislative package covering prudential rules for banks, building societies and investment firms. The capital requirements of the Group are monitored quarterly with the results reported to the Board. Capital is ultimately held for the protection of depositors. The internal level of capital is set with the aim of ensuring that the business has sufficient levels of capital for current and projected future activities, to withstand downturn stresses, and to ensure that the minimum regulatory requirement is always met.

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business.

Throughout the year the Group complied with, and maintained surplus capital above, the externally imposed capital requirements.

The following table shows the composition of the Group's regulatory capital:

	GROUP	
	2021	2020
	£'000	£'000
Common Equity Tier 1 capital		
General reserves	**132,171**	113,218
Available-for-sale reserve	**1,082**	2,948
Common Equity Tier 1 capital prior to regulatory adjustments	**133,253**	116,166
Adjustments to regulatory capital	**(1,112)**	(2,281)
Common Equity Tier 1 capital	**132,141**	113,885
Tier 2 capital		
Collective provision	**151**	509
Total capital	**132,292**	114,394

32. COUNTRY-BY-COUNTRY REPORTING (unaudited)

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms in the EU to disclose annually, specifying by Member State and third country in which it has an establishment, the following information on a consolidated basis for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The principal activities of National Counties Building Society are the provision of residential mortgages and retail savings products.

National Counties Building Society and its subsidiaries operate mainly in the United Kingdom. Details of the Society's trading subsidiaries are disclosed in Note 16a.

Average employee numbers are disclosed in Note 8.

	GROUP	
	2021	2020
	£'000	£'000
Turnover	**34,491**	25,107
Profit before tax	**22,549**	7,417
Corporation tax paid	**1,192**	-

Turnover consists of net interest income, net fees and commissions received or paid and other income.
No public subsidies were received by the Group.

33. RELATED PARTY DISCLOSURES

During the year, the Society paid Smart Money People Limited £9,360 (2020: £9,360) for customer insight information and £28,800 (2020: £31,500) to a company for which Patrick Muir is a Director for his services as a Director to Smart Money People Limited.

In November 2018, the Society made a convertible loan facility available to Smart Money People Limited. In October 2021, the amount outstanding under this facility of £247,492 was included within a new loan facility of £747,492 which provided a further £500,000 available for drawing up to 30 September 2023. Interest is charged on the loan at a fixed rate of 1.2% per annum and the loan is repayable in full on 30 September 2024. The balance drawn on the loan at 31 December 2021 was £298,292.

At 31 December 2021, the Society had separate mortgage loans outstanding totalling £16,999,000 (2020: £16,999,000) with Eastbank Limited, with one of its Directors and with an individual that has a family relationship with another Director of Eastbank Limited. Eastbank Limited is a related party of Arden & Sons Limited which is a fellow Member of Family & Arden Homes LLP, a subsidiary partnership. Interest on the loans is charged at normal commercial rates.

The Society has made available to Family & Arden Homes LLP, a £10m loan facility which is interest free and repayable on 7 days notice. The amount drawn on the facility at 31 December 2021 was £9,882,000 (2020: £9,963,000).

The Directors held £988,608 of savings balances with the Society at 31 December 2021 (2020: £901,398).

During the year, the Society paid £6,750 to a company for which John Howard, a former director of the Society, is a Director for his services to the Society.

ANNUAL BUSINESS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

The Annual Business Statement sets out certain information and explanations prescribed by regulations made under the Building Societies Act 1986 in respect of the Group's business for the year.

1. STATUTORY PERCENTAGES

	%	Statutory limit %
a) Lending limit		
Proportion of business assets other than in the form of loans fully secured on residential property	**0.93**	25
b) Funding limit		
Proportion of shares and other borrowings other than in the form of shares held by individuals	**20.22**	50

The statutory percentages demonstrate that the Group complies with the principal purpose of a building society, namely the making of loans which are secured on residential property and funded substantially by its members.

The above percentages are derived directly from the Group Statement of Financial Position.

Business assets are the total assets of the Group plus provisions for impairment losses less tangible and intangible fixed assets and liquid assets.

Loans fully secured on residential property comprises the amount of those loans shown in the Group Statement of Financial Position plus provisions for impairment losses on those loans.

2. OTHER PERCENTAGES

	2021 %	2020 %
As a percentage of shares and borrowings:		
Gross capital	**6.42**	5.43
Free capital	**6.04**	5.06
Liquid assets	**21.19**	25.57
As a percentage of mean assets:		
Profit after taxation	**0.78**	0.26
Management expenses – Group	**0.84**	0.75
Management expenses – Society	**0.81**	0.74

The above percentages have been compiled directly from the Group Accounts.

Gross capital represents general reserves and available-for-sale reserves.

Free capital represents the aggregate of gross capital and collective provision for impairment losses less tangible and intangible fixed assets.

Mean total assets represents the average of the aggregate of total assets at the beginning and end of the year.

Profit after taxation is described as profit for the financial year in the Income Statement.

Management expenses are the aggregate of administrative expenses and depreciation and amortisation.

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

DIRECTORS AT 31 DECEMBER 2021

OTHER DIRECTORSHIPS:

Rodger Grant Hughes *MA, FCA* (Chairman)
Born: August 1948
Appointed: July 2013
Business Occupation: Non-executive Director

Other directorships: Counties Home Loan Management Ltd*

Patrick Harry Muir (Vice Chairman)
Born: May 1965
Appointed: March 2015
Business Occupation: Marketing Consultant

Other directorships: Swan Marketing Services Ltd; Smart Money People Limited

Mark Alexander Bogard *MA*
Born: January 1962
Appointed: May 2012
Business Occupation: Building Society Chief Executive

Other directorships: Alexander Hall Associates Ltd; Goodeffect Ltd

Christopher Rendell Croft *LLB*
Born: September 1951
Appointed: May 2014
Business Occupation: Building Society Company Secretary

Other directorships: Counties Home Loan Management Ltd*; National Counties Financial Services Ltd*

Andrew Barnard *BA, ACMA, CGMA*
Born: July 1971
Appointed: April 2018
Business Occupation: Building Society Finance Director

Other directorships: Counties Home Loan Management Ltd*

John Cole *FCA*
Born: July 1953
Appointed: October 2019
Business Occupation: Chartered Accountant

Other directorships: London South Bank University; Age UK – Treasurer

Fiona Mary Crisp *MSc, DIC, FCT*
Born: October 1957
Appointed: March 2015
Business Occupation: Treasury Consultant

Other directorships: Crisp Consultants Ltd

Susan Sharrock Yates *BA, FCA, FCT*
Born: October 1958
Appointed: August 2020
Business Occupation: Non-executive Director

Other directorships: Friends Provident Pension Scheme Trustees Limited

Simon Wainwright *BSc, MBA, FCIB*
Born: April 1963
Appointed: March 2015
Business Occupation: Managing Director

Other directorships: RGA UK Services Ltd; Recognise Bank Limited; City of London Group Plc

OFFICERS AT 31 DECEMBER 2021	DIRECTORSHIPS:
Chris Agathangelou **Business Occupation:** Director of Commercial Development	AGA Consulting & Services Ltd
Keith Barber *DMS, ACIB, DipPFS* **Business Occupation:** Director of Business Development	National Counties Financial Services Ltd*
Malcolm Clays *BSocSc, ACA* **Business Occupation:** Director of Finance	(None)
Andrew Deeley *MCICM* **Business Occupation:** Director of Lending	(None)
Michael Feather **Business Occupation:** Director of Business Change	(None)
Rebecca Hayes **Business Occupation:** Chief Information and Technology Officer	(None)
Wendy Fry *BA, ACA, AMCT* (until 29 October 2021) **Laura Blake** (Interim) **Business Occupation:** Chief Risk Officer	(None)
Nick Hodges *BSc, AMCT, ACMA* **Business Occupation:** Director of Treasury	(None)
David Horsman *LLM, FCCA* **Business Occupation:** Director of Financial Planning and Analysis	(None)
Kathryn Mendoza *LLB* **Business Occupation:** Director of Legal and Compliance	(None)
Alistair Nimmo **Business Occupation:** Director of Marketing	(None)
Vicki Webb *BSc, MCIPD* **Business Occupation:** Director of HR and Training	(None)

*Companies within the National Counties Group

Details of Directors' service contracts are provided in the Report on Remuneration.

Details of membership of and attendances at main Board Committees are given in the Report on Corporate Governance.

The address for service of documents for each director is National Counties Building Society, Ashley Square, Ashley Centre, Epsom, Surrey KT11 5DD.

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