


Chorley Building Society

TRUSTED SINCE 1859

# Annual Report and Accounts

For the year ended 7 February 2022

This year's front cover design features some of our amazing employees. Photography by Mark Tattersall Studio Photographer.

# Our Vision

To be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values.

# Our Values

- Security and Stability
- Trust
- Investment in our People and in our Systems
- Customer Service

# Employee Values, Behaviours and Conduct

| B | R | I | T | E |
|---|---|---|---|---|
| Be the Best we can be | Respect | Integrity | Teamwork | Every Member counts |

# Contents



## Key Highlights of the Year

Total assets increased by

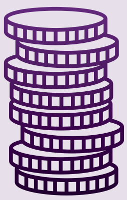
**3.8%**

**(2021: 12.7%)**

Mortgage balances increased by

**7.8%**

**(2021: 12.6%)**



Net profit

**£1.18m**

**(2021: £0.57m)**

Savings balances increased by

**1.3%**

**(2021: 12.6%)**

Capital increased to

**£22.0m**

**(2021: £20.8m)**

# Directors' Report

The Directors have pleasure in presenting the Society's 163rd Annual Report and Accounts and Annual Business Statement for the year ended 7 February 2022.

## Purpose, strategy and values

The principal purpose of the Society is that of making loans that are secured primarily on residential property which are funded substantially by its Members.

The Society's vision is 'to be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values'. This is underpinned by our mission statement 'to make a difference to the lives of our Members and the local community'.

The Society's business model and strategy continues to serve us well and remains largely unchanged. The Society's strategic objectives are to:

› **Deliver a personal service crafted to meet your needs**

The Society is committed to delivering a personal service by embracing our Members' individual needs and wants whilst offering savers and mortgage products distributed through multi-channels.

› **Remain a safe home for Members' money**

The Society is committed to remaining safe by continuing to be financially strong and effectively governed in order to protect Members' money.

› **Encourage our Member base to flourish, helping more people reach their aspirations of home ownership and realise their savings ambitions**

The Society is committed to encouraging our Member base to flourish by being a provider of choice, rewarding membership and meeting the needs of each unique Member at every stage of life.

› **Always live by our BRITE Values**

Our values are at the heart of everything we do. They are what drive our everyday behaviour, shape our culture and guide our decision making. Living by our values allows us to demonstrate what is special and different about the Society to those with whom we interact and engage.

Our values ensure that every Member receives a level of service of which we can be proud.

**The Society Values are:**
Be the **Best** we can be;
Be **Respectful**;
Act with **Integrity**;
Work as a **Team**; and
Ensure **Every** Member counts.

The Society is committed to living by our BRITE Values.

› **Make a difference in the local community in which we operate**

The Society is committed to making a difference in the local community in which we operate by supporting and helping causes that matter to our Members.

## Business Review

The Board remains unanimous in its belief that the mutual form is the most appropriate and beneficial to the interests of all existing and future Members.

Throughout the global COVID-19 pandemic which persisted during 2021, resilience in the UK housing market continued with further activity potentially stimulated by the changing needs of borrowers and extension to the temporary reduction in stamp duty.

The UK savings market has seen further growth in 2021 with investors turning to cash savings in a volatile investment market. In addition, savings have continued to increase by the reduced spending opportunities available for those with disposable income. However, despite this prolonged period of economic uncertainty and intermittent lockdowns, the Directors are pleased that the Society is reporting another successful year. A summary of the year end performance against the Society's strategic objectives is outlined as follows.

## Deliver a personal service crafted to meet your needs

The Society places great value on offering a professional and personalised experience for all Members, both through our friendly and well-trained staff in our branches and through our complementary online offerings. During the past year we were delighted to launch our online facility allowing savings accounts to be applied for and opened online, as well as introducing a facility to allow Members to accept a mortgage offer digitally.

## Remain a safe home for your money

One of the Board's roles is to set the Society's strategy. The main Key Performance Indicators which are used by the Board to monitor the performance of the Society's strategy are detailed in the table below.

| Key Performance Indicators | 2022 | 2021 |
|---|---|---|
| Total assets | £311.7m | £300.3m |
| Total asset growth | 3.8% | 12.7% |
| Profit after taxation | £1.18m | £0.57m |
| Net interest margin | 1.9% | 1.7% |
| Management expenses as a percentage of mean total assets | 1.5% | 1.4% |
| Gross mortgage lending | £66.3m | £66.4m |
| Net mortgage balances | £259.0m | £240.0m |
| Mortgage asset growth | 7.8% | 12.6% |
| Shares and deposit balances | £269.5m | £266.1m |
| Capital | £22.0m | £20.8m |
| Gross capital as a percentage of shares and borrowings | 7.6% | 7.5% |
| Free capital as a percentage of shares and borrowings | 7.1% | 6.9% |
| Tier 1 capital ratio | 20.2% | 20.7% |
| Liquid assets as a percentage of shares and borrowings | 17.3% | 20.7% |

## Encourage our Member base to flourish

Despite the backdrop of a global pandemic, the Society achieved record levels of mortgage balances in the year. Our teams have been dedicated to supporting our Members, providing a high quality service and a flexible approach. During the year we launched a range of new mortgage products such as 'Shared Ownership' and 'Holiday Let', which acknowledge the ever changing needs of our Members, whilst remaining a responsible lender. Our product range for savers Members continued to include instant access and a range of notice products with competitive rates.

The Society keeps its savers and mortgage product offerings and market positioning under constant review and makes changes accordingly. We were delighted to introduce numerous initiatives during the year to provide added value to our Members. These included the launch of regular Member newsletters as well as the launch of a relationship with Accord Legal Services to ensure all Members and our employees have access to a will writing service.

## Always live by our BRITE Values

The Society's service proposition is founded upon highly qualified and well-trained employees who are motivated to act in the best interests of our Members, equipped with the appropriate training, systems and tools to do the job properly. The Society remains committed to training and career development for all employees. Remote working facilities successfully continued throughout 2021 for all appropriate employees.

As an equal opportunities employer, the Society values the differences that a diverse workforce can bring and is committed to ensuring that its workplaces are free from discrimination because of race, nationality, ethnic or national origin, gender (including gender reassignment), sexual orientation, age, religious beliefs, marital status or disability.

## Make a difference in the local community in which we operate

### Charitable and Political Donations

The communities in which our branches operate form the heart of the Society. During the year, supporting local community groups and charities has been more important than ever. As a Society we have continued to support charities with much needed donations and our employees have been involved in many activities to raise money for charity and community groups. As well as this, in April 2021, we made a commitment to donate a minimum of 5% of operating profits each year to support great causes within our community of Lancashire. We call it the Chorley High Five! The 5% donation is available to local charities, community groups, not-for-profit organisations and grassroots clubs that support our aims of:

- Supporting Member and community wellbeing
- Tackling poverty and homelessness
- Supporting grassroots sporting activities

During the year, £52,002 was donated in relation to the High Five and comprised 24 beneficiaries including our Member voted Charity of the year, the North West Air Ambulance Charity. In addition, we donated Christmas gifts to local children who would not otherwise receive presents at Christmas. We also gave to the following affinity savings partners during the year; Rosemere Cancer Foundation, Age Concern, The North West Air Ambulance Charity, Derian House, St Catherine's Hospice, Galloways Society for the Blind, Chorley Football Club and Age UK Lancashire.

No donations were made for political purposes. Further details on the Society's charitable giving during the year can be found in the Charity and Community Support information in the Business Review document. This is available on the Society's website www.chorleybs.co.uk or may be obtained by request at the Society's Head Office.

## Profitability

The Society seeks to make sufficient profit in order to invest in and grow the business for the benefit of its current and future Members. Profit enhances our financial strength and is necessary to meet the levels of capital, including protection buffers, required under the Capital Requirements Directive. Financial strength also protects the Society against its principal risks and uncertainties and safeguards Members' funds. The Society prepares its results under Financial Reporting Standard (FRS) 102.

Profit before tax increased by £0.7m to £1.4m during the year from £0.7m in the previous year due to increased mortgage balances. The Society anticipates that the market will remain competitive and that our business model will ensure that sufficient profitability will be generated in 2022/23 to meet our future-planned objectives.

| Income Statement Overview | 2022 £m | 2021 £m |
|---|---|---|
| Total income | 5.9 | 4.9 |
| Management expenses | (4.6) | (4.0) |
| Loan impairment provisions | 0.1 | (0.2) |
| **Profit before tax** | **1.4** | **0.7** |

### Net interest margin

Net interest margin is a measure of the Society's net interest income and equates to the difference between interest received on assets and interest paid on liabilities, divided by the Society's average total assets during the year.

The Society's net interest margin increased from 1.7% to 1.9% during the year principally due to the effects of the low rate savings market in the backdrop of a historically low Bank Base Rate (BBR) of 0.10% which remained for most of 2021 and which increased to 0.25% on 16 December 2021 and further increased to 0.50% on 3 February 2022. The Board seeks at all times to manage the margin by balancing the risks and rewards in relation to borrowing Members while offering value to savers Members.

### Administrative expenses and depreciation

Administrative expenses and depreciation (together "management expenses") increased by £604,757 in the year. Employee costs increased by 13.3% and other administrative costs increased by 19.9% compared to the prior year. The increase in employee costs was driven by the increase in headcount in line with the continued growth of the Society. Increased Marketing and IT costs also supported the Society's growth and were drivers for the rise in other administrative costs, as was increased internal assurance and audit costs. Further details can be found in note 4 on page 33.

The ratio of management expenses to mean total assets increased in the year from 1.4% to 1.5%.

### Impairment charges

The Society maintains an appropriate Mortgage Impairment Policy designed to protect against estimated losses resulting from mortgages that are impaired on either an individual or collective basis. Impairment provisions for loans and advances to customers reduced by £123,205 (2021: increased by £214,414), largely due to the increase in property values in the year.

## Mortgage Credit Quality

### Mortgage Arrears

The Society's arrears statistics as at 7 February 2022 remain low compared to both the building society sector and the mortgage industry as a whole. There were 7 cases in serious arrears of 12 months or greater at the year end (2021: 5 cases). The total amount of arrears outstanding on these accounts was £70,672 (2021: £42,532) and the aggregated capital balance was £637,640 (2021: £422,588). In all cases, the Society has assessed whether the mortgage assets affected are supported by adequate underlying equity with specific provisions raised where necessary. The low arrears levels reflect the macroeconomic environment, with ongoing low mortgage interest rates assisting borrowers with their repayment obligations. However, the position also reflects the Society's low risk business model and prudent underwriting approach. The Society always seeks to ensure that borrowers can meet affordability requirements at the date of inception of the mortgage and throughout the full mortgage term. Once again, the Society is pleased to report that there were no properties in possession at the year end.

### Forbearance

The Society will work closely with any borrower experiencing difficulties, offering help and advice on the situation where appropriate. Forbearance measures may include actions such as temporary interest-only concessions, extensions of term and/or reduced payment concessions. Forbearance towards borrowers was applied to 33 accounts as at the year end (2021: 45). The reduction in the year is largely due to a number of borrowers, who experienced financial difficulty as a result of the COVID-19 pandemic, no longer requiring forbearance measures as their situation improved following the easing of lockdown restrictions.

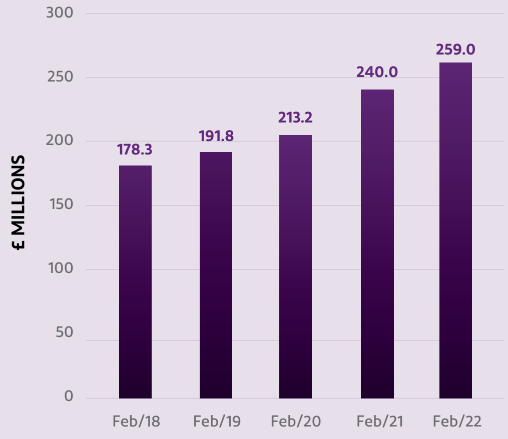
### Taxation

The Society discloses an effective corporation tax rate of 19.00% for the year (2021: 19.00%). For further information see note 7 on page 34.

## Financial Position

### Mortgages (Loans and Advances to Customers)

Mortgage balances after provisions were **£259.0m** (2021: £240.0m) representing a growth of **7.9%** (2021: growth of 12.6%).




A summary of the Society's mortgage portfolios is shown in the table:

| Mortgage Portfolios | 2022 | | 2021 | |
|---|---|---|---|---|
| | £m | Avg. LTV | £m | Avg. LTV |
| Prime Residential | 239.6 | 51.4% | 220.8 | 55.4% |
| Buy-to-Let | 18.6 | 59.2% | 18.6 | 65.4% |
| Commercial | 0.6 | 41.6% | 0.6 | 45.3% |
| Provisions | 0.2 | | - | |
| | **259.0** | | **240.0** | |

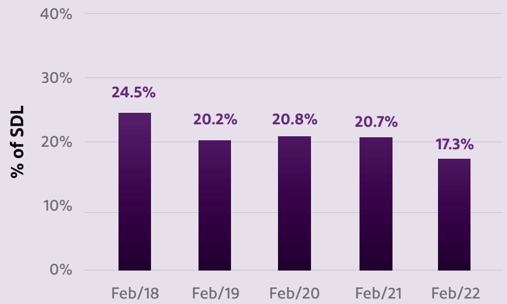
Despite the impact of the COVID-19 pandemic, demand for the Society's range of standard residential owner-occupied mortgage products remained strong, leading to close to record levels of gross advances in the year. As at 7 February 2022, the Society's mortgage book comprised over 99% residential loans; included in this are Self-Build mortgages (10%) and Buy-to-Let mortgages (7%). The Society has historical commercial mortgages amounting to less than 1%, however the Society is continuing to decrease its exposure in this area. Our mortgage assets remain of high quality with a weighted average loan-to-value (LTV) of 52% (2021: 56%). Lending over 80% LTV at inception is insured through a Mortgage Indemnity Policy which protects the Society from any losses incurred if the property is taken into possession.

All loans are individually underwritten by experienced, knowledgeable underwriters. Every mortgage application is personally considered on a case-by-case basis when assessing affordability rather than utilising computerised underwriting tools. Responsible lending and reviewing each case on an individual basis is fundamental to the high quality of our mortgage book. The Society's mortgages are all secured with a first charge registered against the underlying property as collateral. All mortgages are shown at an indexed LTV using the quarterly regional Nationwide House Prices Indices. Further information on security LTV is provided in note 22 on page 38.

## Liquidity

Liquid assets as a percentage of shares, deposits and loans (SDL) decreased to **17.3%** (2021: £20.7%)

Liquid assets were **£50.1m** (2021: £57.8m) representing a decrease of **13.3%** (2021: increase of 13.5%).



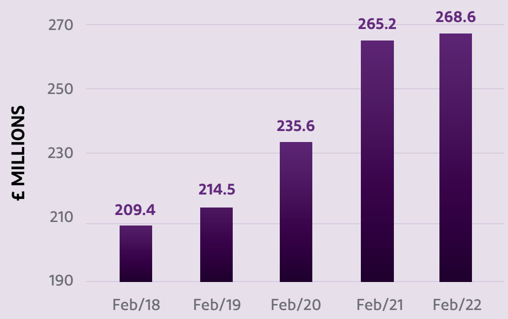

| Liquid Assets | 2022 | | 2021 | |
|---|---|---|---|---|
| Total liquid asset balances | £50.1m | | £57.8m | |
| **By Asset Class** | **£m** | **%** | **£m** | **%** |
| Cash in hand and balances with the Bank of England | 46.5 | 93 | 52.0 | 90 |
| Loans and advances to credit institutions | 3.6 | 7 | 5.8 | 10 |
| | **50.1** | **100** | **57.8** | **100** |

The Society has continued to maintain high quality liquid assets throughout the year. The Society's liquid assets are maintained principally in the form of cash and balances with the Bank of England of an appropriate level and quality. Liquid assets are readily realisable as cash when required to ensure that the Society can meet its financial obligations as they fall due under normal and stressed scenarios. The Society has no exposure to any counterparty outside of the UK.

The Liquidity Coverage Ratio (LCR) measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30 day stress period. The LCR is measured monthly and as at 31 January 2022 was 256% (31 January 2021: 385%). The Net Stable Funding Ratio (NSFR) measures the stability of the Society's funding beyond 30 days. The NSFR is measured quarterly and as at 31 December 2021 was 171% (31 December 2020: 176%). Both the LCR and the NSFR were comfortably in excess of the minimum regulatory limit set by the regulators of 100%.

## Savings (Share Balances)

Savings balances were **£268.6m** (2021: £265.2m) representing a growth of **1.3%** (2021: growth of 12.6%).




The Society aims to generate a level of savings balances that meet its mortgage funding and liquidity requirements. It was pleasing to strengthen our savers base during the year, demonstrating our competitive pricing in the market for new and existing Members alike and the quality of our service proposition. Our philosophy remains to operate fairly with simple product design, competitive terms and conditions and to deliver long-term Member value. We continue to benchmark our interest rates, monitor trends and, most importantly, ensure our Members remain at the heart of any decisions that we make.

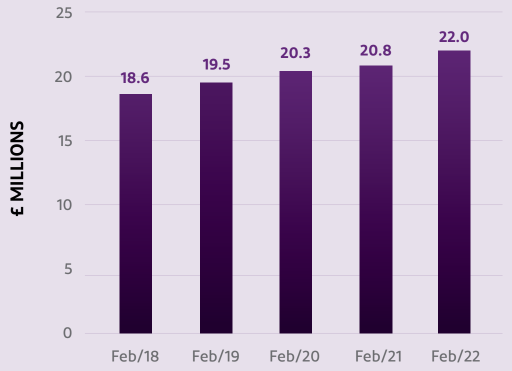
## Funding

The Society manages its funding levels carefully to ensure it achieves an appropriate level, mix and duration of funding which is essential in providing the Society with the financial resources it needs to meet its growth aspirations. As a mutual building society, the Society's business model is to obtain most of its funding through retail savers funds from its Members, with the balance of funds to support liquidity levels obtained from non-retail sources. As the Society is a participant in the Bank of England's Sterling Monetary Framework (SMF), further funding was acquired during the year from the Term Funding Scheme with additional incentives for SME's (TFSME). As at 7 February 2022, the amount borrowed from this scheme amounted to £12.5m (2021: £5.0m) with amounts being repayable no later than four years from the date of draw-down. The draw-down was used to support lending activities throughout the financial year. The Society also accesses funding from the wholesale market. Wholesale borrowings decreased during the year by £0.9m to £6.8m compared to the previous year of £7.7m. This level is comfortably within the limits established by the Board.

## Capital

The Board seeks to maintain a satisfactory level of capital to ensure that the Society is protected against any adverse changes in economic conditions and to cover the level and nature of the risks to which it is or might be exposed.

Capital reserves were **£22.0m** (2021: £20.8m) representing a growth of **5.7%** (2021: growth of 2.8%).




The table below shows the composition of the Society's capital and the capital ratios at the end of the year.

| Capital | 2022 £m | 2021 £m |
|---|---|---|
| General Reserve | 22.0 | 20.8 |
| Intangible Assets | (0.3) | (0.3) |
| **Tier 1 Capital** | **21.7** | **20.5** |
| | | |
| Collective Provision for Impairment Losses | 0.3 | 0.2 |
| **Tier 2 Capital** | **0.3** | **0.2** |
| **Total Capital** | **22.0** | **20.7** |
| | | |
| **Total Risk-Weighted Assets** | **107.1** | **99.5** |
| | | |
| **CAPITAL RATIOS** | **%** | **%** |
| Common Equity Tier 1 Ratio | 20.2 | 20.7 |
| Leverage Ratio | 6.8 | 6.8 |
| | | |
| Pillar 1 Ratio | 8.0 | 8.0 |
| Pillar 2A Ratio | - | - |

The leverage ratio is a measure of capital strength assessing qualifying Tier 1 capital against on-and-off-balance sheet assets. The leverage ratio as at the year end was 6.8% (2021: 6.8%) and although the 3.25% minimum regulatory limit prescribed to firms with retail deposits in excess of £50 billion does not apply to the Society, it is in excess of this limit. The Society is required to set out its capital position, risk exposures and risk assessment process in its Pillar 3 disclosure document. This is available on the Society's website www.chorleybs.co.uk or may be obtained by writing to the Secretary at the Society's Head Office.

## Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Society are set out in the Audit, Risk & Compliance Committee Report on page 17.

## Financial Risk Management Objectives and Policies

The Society operates in a business environment that contains financial risks. To mitigate these risks, the Board has implemented a clearly defined Risk Management Framework that contains the following features:

- A risk-focused governance structure;
- Risk policies and risk limits;
- Risk identification, monitoring and reporting processes and;
- An effective internal control framework.

A detailed assessment of the Society's Risk Management Framework is set out in the Audit, Risk & Compliance Committee Report on page 17.

The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in note 22 on page 38.

## Directors

The following persons served as Directors of the Society during the year:

### Non-Executive Directors

| | |
|---|---|
| John Sandford | Chair of the Board |
| Kevin Bernbaum | Vice Chair (from 27 May 2021) |
| David Bagley | Senior Independent Director (from 27 May 2021) |
| Julia Cattanach | Non-Executive Director (from 3 February 2022) |
| Joanna Hall | Non-Executive Director |
| Andrew Horsley | Vice Chair (to 26 May 2021) |
| Erfana Mahmood | Senior Independent Director (to 26 May 2021) |
| Gail Teasdale | Non-Executive Director |

### Executive Directors

| | |
|---|---|
| Stephen Penlington | Chief Executive |
| Angela Kos | Finance Director |
| Kimberley Roby | Customer Services Director |

In accordance with the Memorandum and Rules of the Society, Angela Kos will retire at the Annual General Meeting on 24 May 2022 and being eligible, will seek re-election to the Board. In addition, Julia Cattanach, being eligible, will seek election to the Board. Directors and Officers insurance has been put in place by the Society.

## Supplier Payment Policy

The Society's policy is to ensure invoices are paid within the agreed payment terms, provided the supplier performs according to the terms and conditions of the contract. The Society has two payment dates per month, so the maximum expected payment term is 15 days unless an invoice is queried for any reason.

## Land and Buildings

The Directors consider that the overall market amount of the land and buildings held by the Society is in excess of the book value recognised within the Society's Statement of Financial Position.

## Events since the Year End

On 24 February 2022 Russian Forces entered Ukraine, resulting in a reaction from Western nations including announcements of sanctions against Russia and Russian interests worldwide and an economic ripple effect on the global economy. The Directors have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties and have concluded that this is a non-adjusting post balance sheet event with the greatest impact on the business expected to be from the economic ripple effect on the global economy and the resulting impact on borrower's affordability. The Directors have taken account of these potential impacts in their going concern assessments.

## The Future Outlook

The outlook for the UK economy remains uncertain for 2022/23 and it can be expected to impact financial performance. As a UK organisation, the Society has no direct exposure to the EU however the wider economic implications of Brexit may still have an impact.

The war in Ukraine is devastating and the long term impacts will bring uncertainty to many. The expectation is that the invasion will apply further upward pressure to already rising living costs in the UK.

Furthermore, the full economic impact of rising inflation and the cost of living is still unknown and can be reasonably expected to impact mortgage affordability. In addition, the possibility of new COVID-19 variants causing further disruption creates a high level of uncertainty. The Board remains confident in the quality of the Society's underwriting however, profitability may be impacted by further economic uncertainty.

The Board considers the Society to be well positioned for a potential severe economic downturn as evidenced in stress tests carried out including rising inflation, rising cost of living, the COVID-19 pandemic, Brexit and the war in Ukraine. The Society maintains adequate levels of liquidity and capital and is able to withstand the stresses it has undertaken. Our Board remains vigilant and continues to watch for any adverse economic indicators. Whilst there may be challenges on the horizon, the Society is well placed to continue its successful business performance and to deliver our vision 'to be the provider of choice for savings and residential mortgages whilst remaining true to our mutual values' and mission statement 'to make a difference to the lives of our Members and the local community'. Our business model remains viable and the risks to our business are understood, well controlled and our assets are of high quality, with low levels of arrears and substantial equity. We have more than sufficient levels of capital and liquidity to meet our objectives and our underlying profitability performance is strong. The Board believes that a successful future outlook lies ahead.

## Going Concern

As outlined above, the current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

**The Directors consider that:**

- The Society maintains an appropriate level of liquidity that is sufficient to meet the normal demands of the business and the requirements which might arise in stressed circumstances;
- The availability and quality of liquid assets is such that funds are available to repay exceptional demand from retail saver Members;
- Other assets are primarily in the form of mortgages secured on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provisions are made where appropriate and;
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements.

The Society has considered the financial impacts of the risks arising as a result of rising inflation, rising cost of living, the COVID-19 pandemic, Brexit and the war in Ukraine by undertaking rigorous stress-testing of the potential outcomes, the results of which demonstrate that it has sufficient capital resources to withstand a range of severe stress scenarios. Further detail is provided on page 19.

The Directors are therefore satisfied that the Society has adequate resources to continue in business for the foreseeable future and at least twelve months from 30 March 2022. For this reason, the accounts are prepared on a going concern basis.

## Provision of Information to the Auditor

Each person who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Society's Auditor is unaware and;
- Each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

## Independent Auditor

The Society regularly assesses the effectiveness of the external audit process and the approach taken to the appointment and reappointment of the external Auditor. This assessment is done on an annual basis, after the completion of the year end audit. This is reported to and discussed at the Audit, Risk & Compliance Committee meeting.

Mazars LLP has expressed its willingness to continue in office as Auditor and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the reappointment of Mazars LLP as Auditor will be proposed at the Annual General Meeting on 24 May 2022.

## A Final Note from the Chair of the Board

This Directors' Report tells of the progress of your Society in 2021 and I am very proud of what has been accomplished through what has been another challenging year. The financial performance demonstrates that we continue to keep your money safe whilst providing mortgages to our Members at a fair price, including those with complex financial circumstances.

During the year, Julia Cattanach was co-opted to the Board as a Non-Executive Director. Julia has held the position of Chief Risk Officer at Experian since 2016 as well as being a qualified solicitor in England and Wales. She has a wealth of experience in legal and compliance, especially in the financial services sector and further strengthens your Board of Directors.

I am proud to be Chair of the Board and to serve your Society. As a Board, we will continue to focus on delivering benefits to you, our Members and to our local community as we move forward into 2022.

On behalf of the Board

**John Sandford**
**Chair of the Board**

30 March 2022

# Our Directors

**John Sandford** BA, MA, FCA
**Chair of the Board**

John was co-opted to the Board in June 2014. He previously worked for KPMG for 33 years, the last 21 as an Audit Partner/ Director, leaving KPMG at the end of 2010. John has developed a small portfolio of other Non-Executive and advisory roles within the mutual sector, chairing the Boards of Johnnie Johnson Housing and Epworth Investment Management Limited. He believes that Chorley has an important role to play within the mutual sector. John has been Chair of the Society since September 2016 having previously been Chair of the Audit, Risk & Compliance Committee. John is married to Judith and has two adult children. His interests include trying to reduce his golf handicap and he is a qualified cricket coach.

**Stephen Penlington** BSc, MBA
**Chief Executive**

Stephen joined the Society in 2006 as Chief Executive. He has a wealth of experience in financial services and has been in the building society movement ever since graduating from the University College of Wales in 1980 with a BSc Economics Honours degree. Stephen is Chair of the Assets & Liabilities Committee and Risk & Compliance Committee. A committed family man, he is an avid reader, loves music, keep-fit and is a rugby enthusiast. Stephen lives in Chorley and is a trustee of the Chorley Constituency (2015) Charitable Trust.

**Kevin Bernbaum** BSc, MBA
**Vice Chair**
**Chair of Audit, Risk & Compliance Committee**

Kevin was co-opted to the Board in June 2014. Kevin holds a degree in Accounting and Financial Analysis and an MBA (Finance). He has over 35 years' experience working within the banking and building society sector specialising in treasury, risk and balance sheet management. Having been brought up in Leicester, Kevin now lives in London and he has three grown-up children.

**David Bagley** FCA
**Senior Independent Director and Non-Executive Director**

David was co-opted to the Board in July 2016. He is a graduate of Lancaster University and a Fellow of the Institute of Chartered Accountants in England & Wales. David has spent his career in professional services and finance, specialising in corporate finance, commercial and investment banking and private equity. He is married with two daughters and lives in Sheffield. David and his wife are active supporters of Guide Dogs where, for 10 years, he was a trustee and board member. David sits on the Nominations & Remuneration Committee and is the Society's Senior Independent Director. He is available to the Society's Members if they have concerns regarding their membership of the Society where contact through the normal channels of either Chair of the Board or Executive Directors has failed to resolve the matter or for which it is considered inappropriate.

**Julia Cattanach** LLB (Hons)
**Non-Executive Director**

Julia was co-opted to the Board in February 2022. She is qualified as a solicitor in England & Wales. She has had a career in legal and compliance in financial services and has been the Chief Risk Officer for Experian in the UK since 2016. Experian is a global data and analytics firm, well known in the UK for its credit reference agency activities. Julia was born and grew up in New Zealand before coming to the UK in 1996. She lives in Nottingham with her husband and son.

**Joanna Hall** CIM
**Chair of Nominations & Remuneration Committee, Non-Executive Director and Employee Champion**

Joanna was co-opted to the Board in June 2019 and now chairs the Nominations & Remuneration Committee. She is also the Whistleblowing Champion. She is Chartered Institute of Marketing qualified and digital marketing certified with over 30 years' experience in financial services. Joanna's passion is to help companies get closer to their customers, demonstrate their value and make it easier for them to do business. She is also a Non-Executive Director for Brewin Dolphin PLC and a Member Trustee Director for AON's £4bn Retirement Plan. Previous industry roles include AXA Health, Fidelity and eValue. She has also worked for a number of consulting firms, including KPMG, EY, Bacon & Woodrow (now Deloitte) and Tillinghast Towers Perrin (now Willis Towers Watson). Joanna was born and grew up in the North West and now resides in Kent with her husband, two children and dog.

**Angela Kos** FCCA, MSc, FCMI
**Finance Director**

Angela joined the Society in 1999 and was co-opted to the Board in April 2013 as Finance Director. She is a Fellow of the Association of Chartered Certified Accountants and graduated from Loughborough University in 2018 with an MSc degree in Leadership and Management. Angela has since become a Fellow of the Chartered Management Institute. Angela has over 22 years' experience working in financial management at the Society and is also responsible for the Society's Secretarial, HR, Training, Facilities and Health & Safety functions. Angela is a member of the Assets & Liabilities Committee, Risk & Compliance Committee and Mortgage Credit Risk Committee. Angela was born in Chorley and lives in Adlington with her husband and three children.

**Kimberley Roby** BA (Hons), MSc
**Customer Services Director**

Kimberley joined the Society in 2006 and was co-opted to the Board in September 2017 as Customer Services Director. She has responsibility for the Society's Marketing, Product, Mortgage, Savings, Business Development and IT operations. Kimberley is Chair of the Mortgage Credit Risk Committee and a member of the Assets & Liabilities Committee, Risk & Compliance Committee and Charity Committee. As a member of the Society's Charity Committee, Kimberley plays a key part in organising numerous charity events during the year, ensuring we support the local community as much as possible. She is passionate about mutuality and putting our Members at the heart of everything we do. Kimberley has a degree in Business Studies as well as a master's degree in Leadership and Management from Loughborough University. She lives in Coppull Moor with her husband and three young children.

**Gail Teasdale** ACA
**Non-Executive Director**

Gail was co-opted to the Board in October 2020. She is a member of the Institute of Chartered Accountants England & Wales having qualified in 1993. She has held various Finance Director roles in a variety of industries before becoming the Chief Executive of Broadacres in January 2018. Broadacres is a housing association owning 6,500 homes across North Yorkshire. Gail is also a member of the Audit, Risk & Compliance Committee. Gail believes it is important that Members are at the core of decision making. Gail was born in Bradford and now lives near Harrogate with her husband and dogs. In her spare time she loves walking and running.

# Statement of Directors' Responsibilities

Directors' responsibilities for preparing the Annual Report and Accounts, Annual Business Statement and Directors' Report.

**The following statement, which should be read in conjunction with the statement of Auditor's responsibilities on page 23, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement and Directors' Report.**

The Directors are responsible for preparing the Annual Report and Accounts, Annual Business Statement and Directors' Report in accordance with applicable laws and regulations. The Building Society's Act 1986 ("the Act") requires the Directors to prepare the Society Annual Accounts for each financial year. Under that law they are required to prepare the Society's Annual Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

**In preparing the Society Annual Accounts, the Directors are required to:**

› Select suitable accounting policies and then apply them consistently;

› Make judgements and estimates that are reasonable and prudent;

› State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;

› Assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and;

› Use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations or have no realistic alternative but to do so.

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

## Directors' responsibilities for accounting records and internal controls

**The Directors are responsible for ensuring that the Society:**

› Keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;

› Takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

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

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

On behalf of the Board

**John Sandford**
**Chair of the Board**

30 March 2022

# Corporate Governance Report

The Directors are committed to best practice in corporate governance. The Society's approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council (FRC) which directly applies to publicly listed companies. The Code does not directly apply to mutual organisations however, the Society has regard to its principles to the extent deemed reasonable and proportionate by the Board when establishing and reviewing corporate governance arrangements.

**The underlying principles of good governance are leadership, effectiveness, accountability, remuneration and relationships with Members, in the context of ensuring the sustainable success of the Society over the long-term. This report outlines the approach adopted by the Society and how the Board considers it has demonstrated application of the principles of the Code.**

## The Role of the Board

The Society recognises that it must be headed by an effective Board which is responsible for the long-term success of the Society. The Board considers a strong system of governance essential to ensure the Society runs smoothly, aids effective, independent decision making and supports the achievement of the Society's strategy with the objective of safeguarding Members' interests. As at 7 February 2022, the Board comprised three Executive and six Non-Executive Directors who provided the appropriate mix of skills, diversity and professional expertise required. The Board meets in at least ten months of the year with an additional day focused on strategy and leadership.

**The principal functions of the Board are:**

- To provide leadership and direction within a framework of prudent and effective controls;
- To determine the Society's strategy;
- To review business performance and;
- To ensure that the necessary financial and business systems, procedures, controls and human resources are in place for the management of risk and to safeguard the interests of Members.

The Society appoints one of its Non-Executive Directors to the role of Senior Independent Director (SID).

**The main role of the SID is to:**

- Act as the main point of contact for Members if they have concerns which the normal channels of communication with the Chair of the Board, Chief Executive or other Executive Directors have failed to resolve or for which such contact is inappropriate;
- Act as a sounding board for the Chair of the Board and Chief Executive on Board and Member matters;
- Conduct the Chair of the Board's annual performance appraisal, taking account of the views of the Non-Executive and Executive Directors;
- Be the focal point for Board members for any concerns regarding the Chair of the Board, or the relationship between the Chair of the Board and the Chief Executive.

Terms of Reference have been created for the SID which are reviewed on an annual basis by the Nominations & Remuneration Committee and approved by the Board. The Board has a formal schedule of matters which are reserved to it and has delegated authority in other matters to a number of Board and Management Sub-Committees. Board responsibilities are detailed in the Board and Board Sub-Committee Terms of Reference, which have been summarised below. Full details of the Terms of Reference can be found on the website at www.chorleybs.co.uk.

## Board Sub-Committees

› Audit, Risk & Compliance Committee

This Committee comprises entirely Non-Executive Directors and meets at least four times a year to consider all aspects of audit, risk and compliance. It is responsible for oversight of financial reporting, internal controls, internal audit, external audit and risk management.

It reviews the fairness of disclosures and recommends acceptance of the Annual Report and Accounts to the Board. It monitors the performance, independence, objectivity, competence and effectiveness of the internal and external Auditors and is responsible for recommending appointment, reappointment or removal of the internal and external Auditors. The Committee reviews the Risk Management Framework and supporting policies.

**As at the year end, the following Non-Executive Directors were members of this Committee:**

- Kevin Bernbaum - Chair
- Gail Teasdale

The Chief Executive, Finance Director and Customer Services Director attend representing the Executive, together with the Chief Risk Officer and Head of Compliance. Representatives of the Society's internal Auditors and external Auditors attend each meeting of the Committee by invitation. At least once a year, the Committee meets with the Society's external and internal Auditors without any employee present. The Chief Risk Officer and Head of Compliance have a reporting line directly to the Chair of the Committee.

The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

› Nominations & Remuneration Committee

This Committee comprises entirely Non-Executive Directors and meets as frequently as is required to fulfil its duties and considers matters relating to Board and management succession and remuneration. It leads the process for Board appointments and makes recommendations to the Board. It considers the balance and diversity of skills, knowledge and experience of the Board, Executive and Senior Management team, the requirements of the business and recommends change where appropriate. It is responsible for approving the Remuneration Policy. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

**As at the year end, the following Non-Executive Directors were members of this Committee:**

- Joanna Hall - Chair
- David Bagley

The Chair of the Board, Chief Executive, Finance Director and Head of HR, Training & Facilities and H&S attend each meeting of the Committee although none are involved in consideration of any matters relating to their own remuneration and are absented from any such discussion.

## Management Committees

› Assets & Liabilities Committee

This Committee is chaired by the Chief Executive and as at the year end, comprised three Executive Directors and members of the Senior Management team. The Committee meets monthly and is responsible for monitoring the structure of the Society's assets and liabilities, controlling financial, liquidity and treasury risks and reviewing control procedures including limits, reporting lines and mandates. The Committee focuses on liquidity risk, interest rate risk, counterparty credit risk, funding risk, basis risk and refinancing risk.

In addition, this Committee is responsible for developing and recommending new products and changes to existing products. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

› Mortgage Credit Risk Committee

This Committee meets as frequently as is required to fulfil its duties but meets at least three times a year. It manages mortgage credit risk matters including ensuring that the Society operates within the agreed parameters set out in the Lending Policy.

› Risk & Compliance Committee

This Committee meets at least four times a year to oversee the implementation of risk management policies, including the Risk Management Framework and the Risk Appetite Framework. In addition, the Committee is responsible for monitoring risk appetite limits and early warning escalation triggers. Furthermore, the Committee is responsible for monitoring the annual compliance plan, updating policies and procedures required to meet legal, compliance and regulatory requirements and to assist the Audit, Risk & Compliance Committee in fulfilling its oversight responsibility for the Society's Risk Management Framework.

The Terms of Reference for all Committees are approved by the Board and are available on the Society's website or by writing to the Secretary at the Society's Head Office. Proceedings of all Committees are formally minuted and minutes are reported to and considered by the full Board.

## Division of Responsibilities

The offices of Chair of the Board and Chief Executive are held by different people and each role is clearly defined, documented and agreed by the Board. The role of the Chief Executive is to manage the Society's business on a day-to-day basis, being accountable to the Board for the financial and operational performance of the Society and for the formulation of a Corporate Plan to achieve the strategic objectives set by the Board.

## Chair of the Board

The Chair of the Board's main role is to lead the Board ensuring that it acts effectively and to facilitate communication with the Society's Members on behalf of the Board. The Chair of the Board sets the direction and culture of the Board facilitating effective contribution from Directors, maintaining constructive relations between Executive and Non-Executive Directors and ensuring that Directors receive accurate, timely and clear advice and information in order to inform strategic decision making. Under the rules of the Society, the Board elects the Chair of the Board from their number for a twelve-month period.

## Non-Executive Directors

**The Non-Executive Director role is to:**

- Provide leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed;
- Constructively challenge and help develop proposals on strategy, ensuring the necessary financial and human resources are in place for the Society to meet its objectives and review management performance and;
- Agree the Society's values and standards in meeting obligations to Members whilst complying with all statutory and regulatory requirements.

Kevin Bernbaum is the Society's Vice Chair and acts as a sounding board for the Chair of the Board. The Vice Chair will stand in for the Chair of the Board if they are unable to attend a meeting or perform their duties. David Bagley is the Society's Senior Independent Director and provides support for the Chair of the Board. The Senior Independent Director is available to Members if they have concerns regarding their Society membership where contact through the normal channels of either the Chair of the Board or Executive Directors has failed to resolve the matter or for which it is considered inappropriate. The Senior Independent Director is responsible for carrying out the annual appraisal of the Chair of the Board.

Joanna Hall is the Society's Whistleblowing Champion and provides an independent point of contact for members of staff who may wish to raise issues. She is also the Society's Employee Champion.

## The Composition of the Board

At the end of the financial year, the Board comprised six Non-Executive Directors and three Executive Directors, providing a balance of skills, diversity and experience appropriate for the requirements of the business.

Committee and Board membership is reviewed annually to ensure that appropriate expertise and skills are maintained. All Non-Executive Directors are considered by the Board to be independent in character and judgement.

Julia Cattanach, Non-Executive Director, was co-opted to the Board on 3 February 2022 and being eligible, will seek election at the Society's Annual General Meeting on 24 May 2022.

## Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Nominations & Remuneration Committee leads the process for Board appointments and makes recommendations to the Board although the Board makes the final decision. All appointments are made on merit, based on the specific skills, competencies and experience required under the Society's succession plan. The Board considers equality and diversity and inclusion although it has adopted the principle that appointments should be made on merit. Vacancies are advertised widely.

Each Director must meet the tests of fitness and propriety prescribed by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Roles that fall into the Senior Managers Regime must also receive regulatory approval.

The Society is committed to diversity and at the year end had 56% (2021: 50%) female representation on the Board. This is in excess of the recommendation made in the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation. Members of the Society are entitled to nominate candidates for election to the Board. The rules of the Society clearly set out the procedure for nominating a Director and the Society welcomes nominations from suitably qualified individuals. The Nominations & Remuneration Committee evaluates the ability of Directors to commit the time required for the effective discharge of their role prior to appointment. The letter of appointment and job description set out the minimum time commitment expected. The attendance record during the year of Board and Committee members is set out on page 16 and this is taken into consideration during the annual assessment of each Director's performance.

## Development

The Society provides a formal induction for Non-Executive Directors and the Chair of the Board ensures that Non-Executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. On appointment, all new Directors receive appropriate induction training and ongoing development is provided by attendance at industry courses, seminars and conferences organised by professional bodies. Any development needs are reviewed as part of the annual appraisal of the Board and individual Director's performance and effectiveness and any training needs identified are provided as appropriate.

## Management Information and Support

The Chair of the Board ensures that the Board receives sufficient accurate, timely and clear information to enable it to discharge its responsibilities. The Society constantly reviews and improves management information to assist the Committees in discharging their duties. The Secretary provides support on corporate governance matters and the Board has access to independent advice if required.

## Evaluation

Each year all Directors are subject to a formal appraisal. The Chair of the Board's performance is assessed by the Senior Independent Director. The Chair of the Board carries out an appraisal of each individual Non-Executive Director based on an assessment of each Director's contribution to the Board's performance and the overall success of the Society and taking into account the views of the Executive Directors. The Chair of the Board carries out the Chief Executive's appraisal based on a range of business and personal performance objectives. The Chief Executive carries out an appraisal of the Finance Director and Customer Services Director based on a range of business and personal performance objectives agreed at the beginning of each year. The Board evaluates its overall performance and that of each Committee on an ongoing basis. This process is used to improve the effectiveness of Directors and the Board collectively. The Non-Executive Directors meet without the Executive Directors present at least once a year. A Board effectiveness review is carried out as part of a rolling audit plan and the Board acts on any recommendations. The Board has established its own Terms of Reference which include a formal schedule of matters that are reserved to it and regularly evaluates its own performance along with that of each Director.

## Re-Election

All new Directors are subject to election by Members at the Annual General Meeting following their co-option to the Board. Directors are appointed for a three year term subject to satisfactory performance. The Board does not believe it is appropriate for the Society to subject all Directors to annual re-election (unless they have served three terms) because of the need to ensure continuity. Directors are required to seek re-election after three years and every three years thereafter and Non-Executive Directors do not generally serve more than three full terms. Any Non-Executive Director serving for a period in excess of nine years is subject to annual re-election by the Members.

## Financial and Business Reporting

The Directors consider 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 performance, business model and strategy of the Society.

The Board has not identified any material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the foreseeable future.

Further information is provided in the Statement of Directors' Responsibilities on page 12 and the business performance is reviewed in the Directors' Report on page 4.

## Risk Management and Internal Control

The Board determines the Society's risk appetite and strategies for risk management and has ultimate accountability for the maintenance of an effective internal risk control system. Senior Management are responsible for designing, operating and monitoring risk management and internal risk control processes. The Audit, Risk & Compliance Committee reviews the adequacy of these processes and the internal Auditor provides independent and objective assurance that the systems and processes are appropriate and controls effectively applied. The Society has a strong compliance culture and the Board is satisfied, following oversight by the Audit, Risk & Compliance Committee, that the Society's systems are effective and appropriate to the scale and complexity of the Society's business. Further information is provided in the Audit, Risk & Compliance Committee Report on page 17.

## Remuneration

The Nominations & Remuneration Committee Report found on page 21 sets out the remuneration policies for Non-Executive Directors, Executive Directors and Material Risk Takers. This report explains how the Society complies with the Code Principles relating to remuneration.

## Dialogue with Members

As a mutual organisation, the Society has Members rather than shareholders. The Society seeks the views of Members in a variety of ways, including face-to-face contact, written correspondence, telephone, SMS messaging, email and questionnaires. The purpose of this dialogue is to understand the wishes of Members and better serve their needs.

## Constructive Use of the Annual General Meeting (AGM)

Each year the Society sends details of the AGM and voting forms to those Members who are eligible to vote. The resolutions include the election and re-election of Directors, a separate advisory vote on the Nominations & Remuneration Committee Report and any other relevant matters. The AGM will take place on Tuesday 24 May 2022 at The Mill Café, St Catherines Hospice, Lostock Lane, Preston PR5 5XU. Members are invited to join the AGM however are encouraged to exercise their right to vote in advance of the AGM by voting online or by completing and returning a proxy form. The distribution of AGM notices (with at least 21 clear days' notice) and the receipt and counting of proxy votes is carried out by independent scrutineers. At the AGM, a poll is called in relation to each resolution and the proxy votes cast are included in the result. The results are subsequently disclosed on the Society's website.

## Directors' Attendance Record

The following persons were Directors of the Society during the year, their attendance at Board and Sub-Committee meetings being disclosed together with the total number of such meetings.

| | Board | Audit Risk & Compliance | Nominations & Remuneration |
|---|---|---|---|
| **Non-Executive Directors** | | | |
| John Sandford (Chair of the Board) | 10 (10) | | |
| Kevin Bernbaum (Vice Chair) | 10 (10) | 4 (4) | |
| David Bagley | 10 (10) | 3 (3) | 1 (1) |
| Julia Cattanach | - | - | |
| Joanna Hall | 10 (10) | | 2 (2) |
| Andrew Horsley* | 4 (4) | | 1 (1) |
| Erfana Mahmood* | 4 (4) | | 1 (1) |
| Gail Teasdale | 10 (10) | 4 (4) | |
| **Executive Directors** | | | |
| Stephen Penlington | 10 (10) | | |
| Angela Kos | 10 (10) | | |
| Kimberley Roby | 10 (10) | | |
| **Total number of meetings** | **10** | **4** | **2** |

(The number in brackets is the maximum number of scheduled meetings that the Director was eligible to attend).

*until 26 May 2021

On behalf of the Board

**John Sandford**
**Chair of the Board**

30 March 2022

# Audit, Risk & Compliance Committee Report

The Audit, Risk & Compliance Committee forms part of the Society's Corporate Governance Framework.

**The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the following:**

- The integrity of the financial statements including significant financial reporting judgements contained therein;
- The effectiveness of the system of internal controls;
- The internal audit and external audit functions. This includes the performance and independence of both the internal and external Auditors and the engagement of the external Auditor in any non-audit work and;
- The effectiveness of the Risk Management Framework.

This report provides a summary of the Committee's work and how it has discharged its responsibilities during the year. The composition of the Committee and Committee meeting attendance is described in detail as part of the Corporate Governance Report on page 13. Minutes of all Committee meetings are distributed to all Board members and the Chair of the Committee reports to the Board at the Board meeting following every Committee meeting.

### Key roles and responsibilities as delegated by the Board

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of the areas described below.

### Financial Reporting

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Annual Report and Accounts of the Society.

**This responsibility is discharged through the following:**

- Review of the Annual Report and Accounts, for completeness and compliance with prevailing, applicable accounting standards and other regulatory and legal requirements;
- Reporting to the Board on the appropriateness of critical accounting policies and any changes thereto, taking into account the views of the external Auditor;
- Review and challenge of significant financial reporting judgements where they have been applied;
- Review of any correspondence from Regulators in relation to financial reporting and;
- Review of the going concern assessment.

**The main areas of focus by the Committee in the year were as follows:**

- Loan impairment provisions:

This is inherently an area of accounting estimate and judgement. A review was undertaken of the estimates and judgements used to determine the timing of recognition and valuation of mortgage loan loss provisions in line with FRS 102. The Committee considered the impact of the approach to forbearance adopted when managing the Society's mortgage portfolio. It also considered other key assumptions contained in the Society's mortgage impairment model on the level of provisions made, most significantly the assumptions for forced sale discount and the relevant disclosure in the Accounts. The Committee examined and challenged the assumptions adopted and is satisfied with the level of impairment provisions made for the mortgage portfolio.

- Revenue recognition:

A review was undertaken of the design, implementation and effectiveness of controls in relation to the calculation of interest income and charges, including the timing of fees and commission recognition under the Effective Interest Rate methodologies.

The Committee considers matters raised by the external Auditors and has concluded that there were no adjustments proposed that were material to the Annual Report and Accounts. The Committee has identified no material uncertainties as to the Society's ability to continue to adopt the going concern basis of accounting over the period of twelve months from the date the financial statements are approved, which is 30 March 2022.

Furthermore, the Committee considers that it has properly discharged its duties in relation to the financial reporting of the Annual Report and Accounts and recommends approval by the Board.

## Internal Controls

The Board recognises that robust systems of internal control are essential to the achievement of the Society's strategic objectives and in safeguarding the interests of Members and the Society's assets. In addition, internal control contributes to effective and efficient operations. The Committee is responsible for the ongoing review, monitoring and assessment of the Society's Risk Management Framework and seeks to ensure Senior Management and employees are responsible for departmental internal control. The Committee approves a risk-based internal audit plan each year based on a three year cycle of work.

**The internal control framework comprises regular reporting from the Senior Management team, internal and external Auditors including the following:**

- Internal audit plans;
- Reports from the internal Auditor;
- Reports from the Chief Risk Officer and;
- Reports from the Head of Compliance.

The information received and considered by the Committee during the year provided adequate and effective assurance in relation to the Society's internal control framework.

## Internal Audit

The internal Auditor provides independent assurance to the Board, via the Committee, on the effectiveness of the internal control framework. The Committee is responsible for the appointment and removal of the internal Auditor, approving the risk-based internal audit plan and monitoring relevant activity, including the progress made by management in addressing any audit findings. In addition, the Committee assesses the effectiveness of the internal audit process through a combination of feedback from Committee members and Society management, completion of standard questionnaires and other external independent information where available.

## External Audit

The Committee is responsible for providing oversight of the Society's relationship with the external Auditor.

**The Committee is responsible for the following:**

- Appointment, reappointment, removal and assessment of independence, objectivity and effectiveness of the external Auditor;
- Recommendation to the Board for the approval of terms and remuneration in respect of audit services provided and;
- Annual approval of the use of external Auditor for non-audit work where necessary.

During the year the external Auditor carried out non-audit assurance work permissible by paragraph 5.40 of the FRC's Ethical Standard (2019) which did not impair auditor's independence.

The Committee assesses the effectiveness of the external audit process through a combination of feedback from Committee members and Society management, completion of standard questionnaires and other external independent information where available.

## Risk Management

The Society's Risk Management Framework is designed to enable the Board to proactively identify, measure, manage, monitor, report and control risks to support the achievement of the Society's Strategy and to ensure fair outcomes for Members.

**The Board has implemented a clearly defined Risk Management Framework that contains the following features:**

- A risk-focused governance structure;
- Risk policy and risk limits;
- Risk identification, monitoring and reporting processes and;
- An effective internal control framework.

## Risk Governance

The Board is ultimately responsible for ensuring that adequate systems of risk management are in place and that the Society's strategy, risk appetite and risk management are consistent. To support the Board, the Audit, Risk & Compliance Committee provides oversight of the Society's risk management.

The Audit, Risk & Compliance Committee reviews and recommends for approval to the Board the Society's Risk Management Framework, Risk Appetite Framework and the supporting key limits and early warning escalation triggers that underpin them. The Audit, Risk & Compliance Committee is further supported by the management Risk & Compliance Committee that is responsible for ensuring that appropriate risk management activity is managed. The Chief Risk Officer provides formal updates on risk management to the Board.

## Risk Framework

The Society adopts a 'Three Lines of Defence' approach to the management of risk as illustrated on the next page. The first line of defence lies within each business department where operational activity takes place. Here, risks are identified and controls are put into place and assessed.

Each department is responsible for updating and monitoring departmental risk registers. The second line of defence lies within the Risk and Compliance function, where policies are tested and challenged. In addition, risk appetites, limits and triggers are reviewed and assessed. Key responsibilities for the second line include the creation and maintenance of the Risk Management Framework and Risk Appetite, balancing the challenge and support of the first line of defence. Furthermore, the Risk and Compliance function is responsible for reviewing and challenging the risks assessed by each business department, including the systems and controls in place to mitigate those risks. The Board and Sub-Committees receive regular risk reports and compliance assurance reports. The third line of defence is provided through independent assurance activities mainly from internal audit.

On an annual basis and thereafter on a rolling three year basis, the Society's internal Auditor undertakes a programme of risk-based audits. The plan covers aspects of both first and second lines of defence. Each audit examines the Society's control environment, tests that controls are robust and that they work effectively in accordance with the Society's policies and procedures and wider laws and regulations. Additionally, the audits will review the Society's relevant records and reports for accuracy and reliability. The Audit, Risk & Compliance Committee approve the annual internal audit plan and receive regular updates on the progress made against the plan and the results of each audit visit.

## 1 First Line of Defence

### Front Line Management & Staff

- Takes ownership for risk
- Ensuring effective construction and implementation of internal systems and controls and MI reporting

## 2 Second Line of Defence

### Risk & Compliance Function

- Provides oversight and challenge to First Line of Defence
- Support appropriate risk taking using policies, frameworks, tools and analysis

## 3 Third Line of Defence

### Internal Audit

- Independent assurance over the first two lines of defence provided by internal audit

### Stress Testing

The Risk Management Framework makes use of stress and scenario testing to consider potential outcomes for the Society. For example, the stresses caused by falling house prices, rising unemployment, increasing inflation, cost of living and pressure on borrowers' affordability. The results of stress and scenario testing are used to evaluate the adequacy of the controls in place and to test the Society's response, contingency and recovery plans. The Society has considered the financial impacts of the risks arising as a result of rising inflation, rising cost of living, the COVID-19 pandemic, Brexit and the war in Ukraine by undertaking rigorous stress-testing of the potential outcomes, the results of which demonstrate that it has sufficient capital resources to withstand a range of severe stress scenarios. The Corporate Plan has also been reviewed and scenarios modelled to take account of the possible difficult market conditions in 2022.

### Principal Risks and Uncertainties

**The principal risks and uncertainties facing the Society are outlined below:**

› Credit Risk
This is the risk that mortgage borrowers or treasury counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due, resulting in financial loss. The Society manages credit risk associated with mortgage borrowers by maintaining a Board approved Lending Policy.
This policy includes clearly defined criteria and processes for approving individual mortgages. By way of example, the criteria include requirements to undertake a full credit history check and affordability assessment of the borrower and a full valuation of the proposed security by a suitably qualified valuer. The Society maintains an Arrears & Payment Shortfalls Policy. This clearly stipulates the processes and parameters for managing borrowers with credit problems, including when and how the Society considers forbearance measures. The Society monitors borrowers on an on-going basis, with appropriate and timely action taken on those mortgages which fall into arrears. The policy is reviewed annually by the Mortgage Credit Risk Committee and is recommended to the Board for approval.

Furthermore, the Society maintains a Mortgage Impairment Policy. This clearly defines the criteria for making appropriate provisions for potential mortgage impairments. The policy is reviewed by the Mortgage Credit Risk Committee and recommended to the Audit, Risk & Compliance Committee for approval.

The Society manages credit risk arising from deposits made with treasury counterparties by maintaining a Board approved Financial Risk Management Policy (FRMP). This includes clearly defined criteria and processes for placing deposits with counterparties. By way of example, the criteria restrict the Society to placing deposits with UK institutions only and counterparties with high quality credit ratings. In addition, the Society operates with maximum exposure limits for individual counterparty exposures. The FRMP is reviewed annually by the Assets & Liabilities Committee and is recommended to the Board for approval.

› Liquidity and Funding Risk
This is the risk that the Society, although solvent, either does not have available sufficient financial resources to meet its financial obligations as they fall due or can do so only at excessive cost. The Society manages liquidity risk by maintaining a Board approved Financial Risk Management Policy (FRMP) and an Internal Liquidity Adequacy Assessment Process (ILAAP). The FRMP clearly defines the parameters that must be met to ensure sufficient funds are available at all times, including times of stress, in liquid form. The purpose of the ILAAP is to document and demonstrate the Society's overall liquidity adequacy setting out its approach to liquidity and funding. Maintaining an adequate amount and composition of liquidity is essential to cover cash flow imbalances, fluctuations in funding, maintain public confidence in the solvency of the Society and to enable it to meet its financial and regulatory obligations. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows. The FRMP and ILAAP are reviewed annually by the Assets & Liabilities Committee and are recommended to the Board for approval.

› Interest Rate Risk
This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates including market rates. The Society manages interest rate risk arising from the differing interest rate characteristics and maturity profile of its mortgage and savings products by maintaining a Board approved FRMP. This policy defines the Society's risk appetite for interest rate risk and includes clear limits and triggers for off-setting assets and liabilities. In addition, the policy includes limits and triggers for Basis Risk. Basis Risk arises when interest rates with the same maturity profile may behave in an unequal way where there is no legal or contractual relationship in place between two rates. Furthermore, the policy allows for the use of financial derivative instruments where appropriate. The financial instruments used by the Society to mitigate certain risks, particularly interest rate risk, are set out in note 22 on page 38. The FRMP is reviewed annually by the Assets & Liabilities Committee and is recommended to the Board for approval.

› Operational Risk
This is the risk of direct or indirect loss resulting from the following:

- People & Processes Risk: The risk of loss arising from human error or inadequate processes.
- Change Management Risk: The inability to execute and control changes effectively to budget or to an acceptable quality.
- Financial Crime Risk: The risk of a material financial loss, or loss of reputation as a result of the Society's activities being used by criminals for the purposes of money laundering, terrorist financing, bribery and corruption and fraud.

- Operational Resilience Risk: The risk of inadequate business recovery and disaster recovery and disaster capability to recover from any operational disruption and to continue to provide critical product or service delivery to our Members.
- Cyber & Information Security Risk: The risk of inappropriate disclosure of personal or sensitive information and/ or inappropriate access to internal data sources. In particular, cyber security threats to the Society and its Members as a result of attacks through the use of computer systems. The Society holds cyber insurance to mitigate any potential financial loss or disruption.
- Information Technology Risk: Risks to the availability, performance and capability of IT systems/telephony/internet.
- Financial Control & Management Risk: The risk that timely, robust and accurate management information is not available to support the Society's financial and operational performance.

The Society manages operational risk through a series of policies including:

- Financial Crime
- Cyber Security (including Cyber Incident Response Plan)
- Information Security
- Recruitment & Selection
- Remuneration
- Training & Competency
- Operational Resilience (including an Outsourcing & Third Party Supplier Policy and Business Continuity Plan)

These policies are reviewed annually by the Risk & Compliance Committee and recommended for approval by the Board either via Audit, Risk & Compliance Committee or Nominations & Remuneration Committee. Operational risk registers are maintained by Senior Management for each department and are subject to regular review and assessment by the Risk & Compliance Committee. In addition, the mitigating controls are equally subject to regular review and assessment. Furthermore, operational risks are reported to the Risk & Compliance Committee on a monthly basis.

- Strategic Risk

This is the risk that the Society is not able to continue in business or that it may not be able to carry out its business plans and/or strategy. The wider economic uncertainties arising from rising inflation and rising cost of living are expected to put material pressures on disposable incomes in 2022. The Society has attempted to mitigate some of these risks when assessing mortgage affordability.

Since the start of the COVID-19 pandemic there has been an increase in online transactions from consumers, including our Members. The Society is continuing with its programme of digital development to ensure its Members can choose how they would like to interact with the Society in the future.

- Brexit Risk

As a UK organisation, the Society has no direct exposure to the EU. However the wider economic implications may still have an impact on the Society. This could exacerbate the effect on the economy and the housing market as well as the ability for borrowers to pay their mortgages.

- Climate Change Risk

The Society recognises the risks and challenges posed by climate change. While the financial risks from climate change may only crystallise in full over longer time horizons, they are becoming apparent now. The Society particularly recognises two risks: physical and transitional.

- Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending.
- Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting ones. The Chief Risk Officer has responsibility for monitoring climate change risk at an operational level, with oversight provided by the Audit, Risk & Compliance Committee.

- Regulatory Risk

This is the risk that changing laws, the volume and complexity of regulatory requirements and the risk of non-compliance with increased regulatory requirements may impact the Society's ability to compete and grow. The Society has an internal Risk & Compliance function to identify and monitor regulatory changes to allow management to respond in an appropriate manner. This risk is regularly reviewed by the Board.

- Conduct Risk

This is the risk that actual or potential Member detriment arises, or may arise, from the way the Society conducts its business. The Board has primary responsibility for ensuring that the way the Board conducts dealings with its Members is fair and in their interests. This culture is embedded throughout the business and the Board considers all matters that impact upon the fair treatment of our Members. The Society manages conduct risk by maintaining a Conduct Risk Framework. This describes the Board's risk appetite for conduct risk and details the responsibilities for ensuring that the Society conducts its dealings with Members in a fair and transparent manner that is in their best interests. By way of example, matters are considered in relation to product design, terms and conditions, complaints, fees and charges and ensuring that staff are trained and suitably qualified.

The Conduct Risk Framework is reviewed annually by the Risk & Compliance Committee and recommended for approval to the Board via the Audit, Risk & Compliance Committee.

## Audit, Risk & Compliance Committee Effectiveness

The Committee undertakes a self-assessment review to monitor the performance against its Terms of Reference. Feedback is received from Committee members and attendees by the completion of standard questionnaires and other external independent information where available.

On behalf of the Audit, Risk & Compliance Committee

**Kevin Bernbaum**
**Chair**

30 March 2022

# Nominations & Remuneration Committee Report

The purpose of this report is to describe the Society's approach to remuneration for the Non-Executive Directors, Executive Directors and Material Risk Takers (MRT) and how the Society pays regard to the principles of the UK Corporate Governance Code relating to remuneration, the FCA's Remuneration Code and the disclosure requirements arising under the EU Capital Requirements Directive V (CRD V).

## The Procedure for Determining Remuneration

The Nominations & Remuneration Committee is a Board Sub-Committee that forms part of the Society's Corporate Governance Framework. The Committee operates within the Term of Reference agreed by the Board which are reviewed annually. The Committee comprises two Non-Executive Directors. The Chair of the Board, Chief Executive, Finance Director and Head of HR, Training & Facilities and H&S attend each meeting of the Committee although none are involved in consideration of any matters relating to their own remuneration and are absented from any such discussion. The Chief Risk Officer provides an Independent Report on Remuneration to the Nominations & Remuneration Committee regarding pay awards. The Committee reviews Non-Executive Directors', Executive Directors' and MRT's remuneration annually, taking into consideration data from comparable organisations and from the market within which the Society operates. Minutes of all Committee meetings are distributed to all Board members and the Chair of the Committee reports to the Board at the Board meeting following every Committee meeting. The Society has adopted a simple remuneration structure which is appropriate to its business and is efficient and cost effective in promoting its long-term strategy. Transparent salary, other benefits and pension contributions are supplemented by a modest and straight-forward bonus scheme that promotes continued involvement in the Society's ongoing success.

The Remuneration Policy does not include significant performance related variable remuneration. The Society does not offer guaranteed variable remuneration, share options, or medium or long-term incentive schemes. The Society does not offer variable remuneration, commission, retention awards or cash payments in excess of a set percentage of overall basic salary. This is considered an important element of risk management so that variable remuneration does not form a significant element of total remuneration and so avoids incentivising behaviour inconsistent with the proper management and control of risk.

The Nominations & Remuneration Committee will consider the maximum to be paid in terms of variable remuneration on an annual basis.

## The Policy for Remuneration Non-Executive Directors' Remuneration

The Society's Remuneration Policy is to reward Directors through fees according to the time commitment and their expertise, experience and overall contribution to the successful performance of the Society. The remuneration of all Non-Executive Directors is approved by the Committee on an annual basis. The elements of Non-Executive Directors' remuneration and how each element is determined are described in the table below.

| Element | Approach |
|---|---|
| **Basic fee** | Reviewed annually taking into consideration fees from comparable financial services organisations and from the market within which the Society operates. |
| **Additional fees** | Payable for additional responsibilities such as Chair of the Board, Vice-Chair and Sub-Committee Chair. |
| **Other items** | Payable as an additional market forces factor for Non-Executive Directors living outside a 100-mile radius of the Society. |

Non-Executive Directors do not participate in any performance pay scheme, bonus, pension arrangements or other benefits.

## Executive Directors' and Material Risk Takers' Remuneration

The Society's Remuneration Policy is to set remuneration levels which will attract and retain Executive Directors and to set rewards that reflect responsibilities, time commitment and overall contribution to the successful performance of the Society. The remuneration of all Executive Directors is approved by the Committee on an annual basis. The elements of Executive Directors' remuneration and how each element is determined are described in the table below.

| Element | Approach |
|---|---|
| **Basic fee** | Reviewed annually taking into consideration responsibilities, individual performance and salaries from comparable financial services organisations and from the market within which the Society operates. |
| **Bonus** | Reviewed annually taking into consideration a range of financial and non-financial performance measures established to ensure the business is managed in the best interests of Members and benchmarked against peer societies.<br>Bonus arrangements are usually set at a percentage of overall basic salary. |
| **Pension** | The Society operates a defined contribution pension scheme, where both the Society and the individual make contributions to the private pension arrangements and does not offer a defined benefits pension scheme. |
| **Benefits** | A number of benefits may be provided including car allowance and private medical insurance and other benefits as provided to employees generally. |

## Contractual Terms

Non-Executive Directors have contracts for services and are appointed for an initial term of three years. The Chief Executive is employed on a contract of employment that may be terminated by either party giving twelve months' notice. The Finance Director and Customer Services Director are employed on a contract of employment that may be terminated by either party giving six months' notice.

## Directors' Remuneration

Total remuneration of the Society's Directors is shown in the following tables.

| | 2022 £000 | 2021 £000 |
|---|---|---|
| John Sandford (Chair of the Board) | 30 | 28 |
| Kevin Bernbaum (Vice Chair) | 23 | 21 |
| David Bagley | 21 | 19 |
| Julia Cattanach | - | - |
| Joanna Hall | 21 | 20 |
| Andrew Horsley (to 26 May 2021) | 8 | 23 |
| Erfana Mahmood (to 26 May 2021) | 7 | 19 |
| Gail Teasdale | 21 | 6 |
| **Total** | **131** | **136** |

| 2022 | Salary £000 | Pension £000 | Bonus £000 | Benefits £000 | Total £000 |
|---|---|---|---|---|---|
| Stephen Penlington | 158 | 22 | 21 | 1 | 202 |
| Angela Kos | 121 | 12 | 16 | 1 | 150 |
| Kimberley Roby | 98 | 9 | 13 | 1 | 121 |
| | **377** | **43** | **50** | **3** | **473** |

| 2021 | Salary £000 | Pension £000 | Bonus £000 | Benefits £000 | Total £000 |
|---|---|---|---|---|---|
| Stephen Penlington | 151 | 21 | 21 | 1 | 194 |
| Angela Kos | 114 | 11 | 15 | 1 | 141 |
| Kimberley Roby | 90 | 8 | 11 | 1 | 110 |
| | **355** | **40** | **47** | **3** | **445** |

## Summary of Material Risk Takers' Remuneration

Total remuneration of the Society's Material Risk Takers (MRT) is shown in the tables below.

| 2022 | Number during the year | Fixed Remuneration £000 | Variable Remuneration* £000 | Total £000 |
|---|---|---|---|---|
| Non-Executive Directors | 8 | 131 | - | 131 |
| Executive Directors | 3 | 423 | 50 | 473 |
| Material Risk Takers | 10 | 598 | 50 | 648 |
| | **21** | **1,152** | **100** | **1,252** |

| 2021 | Number during the year | Fixed Remuneration £000 | Variable Remuneration* £000 | Total £000 |
|---|---|---|---|---|
| Non-Executive Directors | 7 | 136 | - | 136 |
| Executive Directors | 3 | 398 | 47 | 445 |
| Material Risk Takers | 10 | 587 | 17 | 604 |
| | **20** | **1,121** | **64** | **1,185** |

*Variable remuneration reflects the annual bonus paid by the Society.

On behalf of the Nominations & Remuneration Committee

**Joanna Hall**
**Chair**

30 March 2022

# Independent Auditor's Report

to the Members of The Chorley and District Building Society

## Opinion

We have audited the financial statements of The Chorley and District Building Society (the 'Society') for the period ended 7 February 2022 which comprise the Statement of Income and Movements in Members' Interests, Statement of Financial Position, Cash Flow Statement, and related notes, including a summary of significant accounting policies.

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

**In our opinion, the financial statements:**

- give a true and fair view of the state of the Society's affairs as at 7 February 2022 and of the Society's income and expenditure for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Society's ability to continue as a going concern;
- Making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Society's future financial performance;
- Evaluating the reasonableness of the Society's 5-year Corporate Plan, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their going concern assessment;
- Challenging the appropriateness of the key assumptions used in management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the COVID-19 pandemic;
- Considering the consistency of the management's forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the Directors' disclosures in the financial statements on going concern.

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

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

| Key audit matter | How our scope addressed this matter |
|---|---|
| **Credit risk – impairment of loans and advances to customers (2022: £322k, 2021: £445k)**<br><br>Refer to the Society's disclosures on page 35 (Note 10), associated accounting policies, and management's critical judgements and estimates set out on page 32.<br><br>A loan loss provision is recognised when there is objective evidence of impairment. The Society has limited history of actual loan loss experience on which to base its impairment assessment on the loan portfolio, resulting in management judgement being applied in determining assumptions to be applied in its assessment. Consequently, there is a greater risk of misstatement in the impairment on loans and advances to customers, either by fraud or error, including through the potential override of controls by management.<br><br>The impairment model is most sensitive to movements in the house price index ('HPI'), forced sales discount ('FSD') applied to collateral values and the probability of default ('PD') of the loans.<br><br>Other factors, including the impact of COVID-19 payment holidays and furlough coming to an end on 30 September 2021 could also impact ongoing requirements for additional impairment coverage previously recognised. | Our audit procedures included, but were not limited to:<br><br>› Assessing the design, implementation and the operating effectiveness, of the key controls operating at the Society in relation to credit processes (loan origination and approval, loan redemptions, impairment, forbearance and arrears monitoring);<br><br>› Critically assessing the reasonableness of the external data used in the provisioning model and checking the relevance of this data based on our understanding of the Society's portfolio;<br><br>› Assessing the appropriateness of the impairment methodology used by management against the relevant accounting standards;<br><br>› Comparing the Society's key assumptions with similar lenders and consider whether these assumptions were consistent with industry practices;<br><br>› Performing sensitivity analysis over the key assumptions on PD, FSD, and HPI; and<br><br>› Assessing the adequacy of the related disclosures in the financial statements.<br><br>**Our observations**<br><br>Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable. |

## Our application of materiality and an overview of the scope of our audit

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

| | |
|---|---|
| **Overall materiality** | £220,000 (2021: £208,000) |
| **How we determined it** | 1% of net assets (2021: 1% of net assets) |
| **Rationale for benchmark applied** | We consider that net assets are the most appropriate benchmark to use for the Society, whose strategy is to provide mortgages, savings products and other financial services for the mutual benefit of Members and customers and not one of profit maximisation.<br><br>Further, net assets as a benchmark are supported by the fact that regulatory capital is a key benchmark for management and regulators, where net assets is an approximation of regulatory capital resources. |
| **Performance materiality** | Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.<br><br>We set performance materiality of £154,000 (2021: £125,000) was applied in the audit based on 70% (2021: 60%) overall materiality. |
| **Reporting threshold** | We agreed with the Directors that we would report to them misstatements identified during our audit above £6,600 (2021: £6,200) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

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

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

## Other information

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

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

We have nothing to report in this regard.

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

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

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the Building Societies Act 1986 and regulations made under it;
- the information in the Directors' Report for the financial period is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information on which we are not required to report) gives a true representation of the matters in respect of which it is given.

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements 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.

## Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Society and its industry, we considered that non-compliance with the laws and regulations related to the regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), Anti-Money Laundering regulations and General Data Protection Regulation (GDPR), and we considered the extent to which non-compliance might have a material effect on the financial statements.

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

- Gaining an understanding of the legal and regulatory framework applicable to the Society, the industry in which it operates and considering the risk of acts by the Society which were contrary to the applicable laws and regulations;
- Inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Society is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance and;
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the Directors and Chief Risk Officer, from inspection of the Society's regulatory and legal correspondence and review of minutes of the Board of Directors and Audit, Risk and Compliance Committee during the period.

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

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to impairment of loss and advances to customers (as described in the "Key audit matters" section of our report).

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

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of annual accounts and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.

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

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

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

## Other matters which we are required to address

Following the recommendation of the Audit Risk and Compliance Committee, we were appointed by the Directors on 13 September 2021 to audit the financial statements for the period ended 7 February 2022 and subsequent financial periods. The period of total uninterrupted engagement are two periods, covering the period ended 1 February 2021 and 7 February 2022.

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

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

## Use of the audit report

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

**David Allen**
**Senior Statutory Auditor**

for and on behalf of Mazars LLP,
Chartered Accountants and Statutory Auditor

**Mazars LLP**

One St Peter's Square
Manchester
M2 3DE

30 March 2022

# Statement of Income and Movements in Members' Interests

For the 53-week period ended 7 February 2022 and for the 52-week prior period ended 1 February 2021.

| | Note | 2022 £000 | 2021 £000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 7,205 | 6,866 |
| Interest payable and similar charges | 3 | (1,399) | (2,011) |
| Net interest income | | 5,806 | 4,855 |
| Fees and commissions receivable | | 117 | 56 |
| Fees and commissions payable | | (37) | (32) |
| Total income | | 5,886 | 4,879 |
| Administrative expenses | 4 | (4,332) | (3,756) |
| Depreciation and amortisation | 4 | (231) | (202) |
| Operating profit before provisions and taxation | | 1,323 | 921 |
| Provisions for impairment losses | 10 | 123 | (216) |
| Profit on ordinary activities before tax | | 1,446 | 705 |
| Tax on profit on ordinary activities | 7 | (264) | (130) |
| Profit for the financial year | | 1,182 | 575 |
| Members' interests at the beginning of the year | | 20,836 | 20,261 |
| Members' interests at the end of the year | | 22,018 | 20,836 |

The Notes on pages 30 to 41 form part of these accounts.

The above results are all derived from continuing operations.

# Statement of Financial Position

As at 7 February 2022 and as at 1 February 2021.

| | Note | 2022 £000 | 2021 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Liquid Assets** | | | |
| Cash in hand | | 234 | 309 |
| Loans and advances to credit institutions | 8 | 49,861 | 57,503 |
| **Loans and advances to customers** | | | |
| Loans fully secured on residential property | 9 | 258,441 | 239,399 |
| Other loans – fully secured on land | 9 | 590 | 599 |
| Investments | 11 | 154 | 154 |
| Intangible fixed assets | 12 | 346 | 288 |
| Tangible fixed assets | 13 | 1,554 | 1,573 |
| Prepayments and accrued income | 14 | 503 | 470 |
| **Total Assets** | | **311,683** | **300,295** |
| **Liabilities** | | | |
| Shares | 15 | 268,621 | 265,236 |
| Amounts owed to credit institutions | 16 | 6,757 | 7,767 |
| Amounts owed to other customers | 17 | 13,376 | 5,872 |
| Other liabilities | 18 | 317 | 206 |
| Accruals and deferred income | 19 | 570 | 370 |
| Provision for liabilities | 20 | 24 | 8 |
| | | 289,665 | 279,459 |
| General reserve | | 22,018 | 20,836 |
| **Total Liabilities** | | **311,683** | **300,295** |

The Notes on pages 30 to 41 form part of these accounts.

Approved by the Board of Directors on 30 March 2022.

**John Sandford**
**Chair of the Board**

**Kevin Bernbaum**
**Vice Chair**

**Stephen Penlington**
**Chief Executive**

# Cash Flow Statement

For the 53-week period ended 7 February 2022 and for the 52-week prior period ended 1 February 2021.

| Cash Flows from Operating Activities | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Profit before tax | 1,446 | 705 |
| Adjustments for: | | |
| Depreciation and amortisation | 231 | 202 |
| (Decrease)/increase in impairment of loans and advances | (123) | 214 |
| Loss on disposal of intangible fixed assets | 1 | - |
| Loss on disposal of tangible fixed assets | 1 | - |
| | | |
| **Changes in operating assets and liabilities** | | |
| Increase in prepayments and accrued income | (33) | (94) |
| Increase in accruals and deferred income | 200 | 16 |
| (Decrease)/increase in other liabilities | (5) | 9 |
| Increase in loans and advances to customers | (18,910) | (27,060) |
| Increase in shares | 3,385 | 29,642 |
| Increase in amounts owed to credit institutions and other customers | 6,494 | 3,622 |
| Decrease/(increase) in loans and advances to credit institutions | 5 | (1) |
| Taxation paid | (132) | (188) |
| **Net cash (decrease)/increase from operating activities** | (7,440) | 7,067 |
| | | |
| **Cash flow from investing activities** | | |
| Purchase of intangible fixed assets | (229) | (166) |
| Purchase of tangible fixed assets | (43) | (48) |
| **Net cash used in investing activities** | (272) | (214) |
| **Net (decrease)/increase in cash and cash equivalents** | (7,712) | 6,853 |
| **Cash and cash equivalents at the beginning of the year** | 57,556 | 50,703 |
| **Cash and cash equivalents at the end of the year** | 49,844 | 57,556 |
| | | |
| **Cash and cash equivalents consist of:** | | |
| Cash in hand | 234 | 309 |
| Loans and advances to credit institutions repayable on demand | 49,610 | 57,247 |
| **Cash and cash equivalents** | 49,844 | 57,556 |

# Notes to the Accounts

## 1. Statement of Accounting Policies

### 1.1 General Information

The Chorley and District Building Society (the Society) is incorporated in Lancashire, UK under the Building Societies Act 1986. The address of its registered office is Key House, Foxhole Road, Chorley, PR7 1NZ.

### 1.2 Statement of Compliance

The financial statements of The Chorley and District Building Society are prepared in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and UK applicable accounting standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

### 1.3 Summary of Significant Accounting Policies

The principal accounting policies are summarised below. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

**Basis of Preparation**
The financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102 and the Building Societies (Accounts and Related Provisions) Regulations 1998. The financial statements have been prepared under the historical cost accounting convention.

**Going Concern**
The current economic conditions present risks and uncertainties for all businesses. The Directors have carefully considered the risks and uncertainties and the extent to which they might affect the preparation of the financial statements on a going concern basis.

The Directors consider that:

- The Society maintains an appropriate level of liquidity sufficient to meet the demands of the business and the requirements which might arise in stressed circumstances;
- The availability and quality of liquid assets is such that funds are available to repay exceptional demand from retail saver Members;
- Other assets are primarily in the form of mortgages secured on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provisions are made where appropriate and;
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements.

The Society has considered the financial impacts of the risks arising as a result of rising inflation, rising cost of living, the COVID-19 pandemic, Brexit and the war in Ukraine by undertaking rigorous stress-testing of the potential outcomes, the results of which demonstrate that it has sufficient capital resources to withstand a range of severe stress scenarios. Further details is provided on page 19.The Directors are therefore satisfied that the Society has adequate resources to continue in business for the foreseeable future and at least twelve months from 30 March 2022. For this reason, the accounts are prepared on a going concern basis.

**Total Income**
Interest on outstanding mortgage balances is credited to the Statement of Income and Movements in Members' Interests using the effective interest rate method. The effective interest method is the rate that exactly discounts estimated cash flows to zero, through the expected life of the instrument.

Expected lives are estimated using historical data and management judgement and the calculation is adjusted when actual experience differs from estimates, with changes being recognised immediately in the Statement of Income and Movements in Members' Interests. This policy also applies to accounts where a discounted rate of interest is charged.

The calculation of the Effective Interest Rate includes transaction costs and fees paid or received that are an integral part of the Effective Interest Rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. Other fees and commissions are recognised as the related services are performed and include insurance commissions receivable in the year. Insurance agency commissions received or receivable are recognised by the Society as and when they are received from the agent.

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

The charge for taxation is based on the result for the year and considers taxation deferred because of timing differences between the treatments of certain items for taxation and accounting purposes.

Deferred tax is provided at current rates on a non-discounted basis, on all timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation.

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

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**Fixed Assets and Depreciation**
Tangible fixed assets are stated at historical purchase cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

The costs of fixed assets are written down to their estimated realisable value over their estimated useful lives as follows:

Using the straight-line method:
- Freehold buildings at the rate of 2.2% per annum

Using the reducing balance method:
- Equipment at the rate of 10% to 75% per annum
- Fixtures and fittings at the rates of 10% to 25% per annum

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in the Statement of Income and Movements in Members' Interests.

**Intangible Assets and Amortisation**
FRS 102 requires judgement to be exercised when determining whether software costs should be recognised as tangible or intangible assets.

Where software is regarded as an integral part of the related hardware and the hardware cannot operate without the piece of software, it is to be treated as a tangible asset. However, where the software is not an integral part of the related hardware e.g. computer software, it is to be treated as an intangible asset.

Management have decided that software costs are not an integral part of the related hardware and so have classified these costs as an intangible asset. Intangible assets are stated at historical purchase cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated, using the reducing balance method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software development at the rate of 50% per annum
- Computer software at the rate of 25% per annum

The useful economic life was assessed at the time of purchase. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Society are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available and;
- The expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**Impairment of Non-Financial Assets**
At each year end date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

**Employee Benefits**
The Society provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

i. Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii. Pension costs
The Society operates a defined contribution pension scheme for all its employees, the funds of which are separate from those of the Society. Contributions are charged to the Statement of Income and Movements in Members' Interests in the period to which those contributions relate.

**Financial Instruments**
The Society has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets
Basic financial assets, including liquid assets and loans and advances to customers, are initially recognised at transaction price including transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Income and Movements in Members' Interests.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Income and Movements in Members' Interests.

The Society has no assets held at fair value and investments in equities over which the Society has no significant influence are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii. Financial liabilities
Basic financial liabilities, including shares and amounts owed to credit institutions and other customers are initially recognised at transaction price including transaction costs, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**Term Funding Scheme (TFS), Term Funding Scheme with additional incentives for SMEs (TFSME) and Sterling Monetary Framework (SMF)**
Loans and advances over which the Society transfers its rights to the collateral thereon to the Bank of England under the TFS/TFSME/SMF are not derecognised from the Statement of Financial Position, as the Society retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. TFS/TFSME/SMF borrowings are recognised in 'Amounts owed to other customers'.

**Cash and Cash Equivalents**
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings.

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

**Impairment of Loans and Advances to Customers**
Where objective evidence of impairment is identified in relation to an individual mortgage, an assessment is carried out to determine whether a specific impairment provision to cover anticipated losses is required. Where the assessment does not result in a specific impairment provision being made, the mortgage is assessed for a collective impairment provision. Specific individual impairment assessments are carried out for mortgages which are in possession, are in arrears by two or more months, have known employment issues or are cases of significant concern for the Society.

The specific individual impairment assessment compares the current achievable market value of the security to the outstanding loan balance and calculates an impairment provision that would cover any potential losses. The current achievable market value is calculated by applying an industry recognised national house price index to either the original valuation on advance, or a subsequent valuation and the calculation takes into account an appropriate allowance for costs of repossession and sale, the impact of any applicable Mortgage Indemnity Guarantee (MIG) cover and the expected time taken between the mortgage defaulting and the Society taking possession of the property.

Where the criteria for a specific impairment provision is not met, mortgages are assessed for a collective impairment provision. Collective impairment assessments are carried out on a portfolio basis out using a risk-based approach and reflect the probability that other loans may also be impaired at the year end date with the result that the amount advanced may not be recovered in full. Such provisions are calculated based on estimated loss factors using the higher of the Society's historical experience of default and that of the Society's peers. The rates are regularly reviewed in the light of actual experience. The calculation incorporates the same assumptions for property value and sale costs as the specific provision calculation.

**Accruals and Deferred Income**
Accruals are made to recognise economic benefits and events regardless of when the cash transaction occurs.

Recognition of certain fee income charged to the customers is deferred until the risks and rewards are fully transferred.

**Investments**
Investment in an associate is held at cost less accumulated impairment losses.

**Critical judgements and estimates in applying the accounting policy**
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**- Effective Interest Rate (EIR)**
Interest income and expense is recognised using the effective interest method.

To calculate the appropriate EIR, certain assumptions are made in respect of the expected lives of specific asset portfolios which take into account such factors as the terms of the particular product, historical repayment data and prevailing economic conditions. These estimates are reviewed on a regular basis to ensure they reflect the portfolio's actual performance. In the current year the Society incorporated Early Redemption Charges which had previously not been included in the model as they are an integral part of computing the EIR asset. Sensitivity analysis has been carried out on the expected life of mortgages and shown that an increase in expected life of one month would change the carrying value of mortgages by £196,974 with a corresponding increase to income.

The difference between the contractual interest rates and the effective interest rates of mortgages gives rise to accrued income, described as an EIR asset. As at 7 February 2022, the value of the EIR asset totalled £591,653 (2021: £416,052).

**- Provisions for impairment on loans and advances to customers**
The Society reviews its mortgage advances portfolio at least on a monthly basis to assess impairment. In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices) and customer behaviour (e.g. default rates).

As at 7 February 2022, provisions for impairment of loans and advances to customers totalled £321,839 against £258,761,111 of mortgage balances. The full economic impact of rising inflation and the cost of living is still unknown and together with the possibility of new COVID-19 variants causing further disruption, this creates a high level of uncertainty to take into account when estimating the Society's exposure to potential impairment losses.

Management judgement has been used to increase the levels of provisions held in respect of these uncertainties and the additional credit risk arising from them. The true impact on the Society will only be known in the future and actual losses could be far more, or far less than those provided for at year end. As such and in order to understand the potential impact of inaccuracies in the management judgements, the Society has carried out sensitivity analysis in respect of the key estimates which indicated that a 25% rise in the probability of default would increase the provision for impairment on loans and advances to customers by £63,196 and would result in a corresponding charge to the Statement of Income and Movements in Members' Interests. Further analysis showed that a 5% reduction in the amount of collateral we expect to recover in the event of repossession would lead to a further £159,062 increase in the provision and a corresponding charge to the Statement of Income and Movements in Members' Interests.

## 2. Interest Receivable and Similar Income

| | 2022 £000 | 2021 £000 |
|---|---|---|
| On loans fully secured on residential property | 7,115 | 6,761 |
| On other loans | 29 | 29 |
| On liquid assets | 61 | 76 |
| | 7,205 | 6,866 |

During the year there were mortgage incentives that were charged against interest receivable of £129,777 (2021: £89,150). The movement in the effective interest rate adjustment during the year was included within interest receivable of £175,601 (2021: £44,027).

## 3. Interest Payable and Similar Charges

| | 2022 £000 | 2021 £000 |
|---|---|---|
| On shares held by individuals | 1,360 | 1,946 |
| On deposits and other borrowings | 39 | 65 |
| | 1,399 | 2,011 |

## 4. Administrative Expenses

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Employee costs (including Executive Directors)** | | |
| Wages and salaries | 2,517 | 2,221 |
| Social security costs | 249 | 217 |
| Pension and other costs | 176 | 159 |
| | 2,942 | 2,597 |
| Other administrative expenses | 1,390 | 1,159 |
| | 4,332 | 3,756 |

In addition to the other administrative expenses above are the following amounts, in respect of:

| | | |
|---|---|---|
| Depreciation and amortisation | 231 | 202 |

### Services provided by the Society's Auditor

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Fees payable for the audit | 85 | 81 |
| Non-audit assurance services | 11 | - |

Remuneration of the Auditor disclosed above excludes VAT.

The non-audit assurance service was in relation to assurance provided to the regulator in respect of TFSME.

## 5. Employees

The average number of persons (including Executive Directors) employed by the Society during the year was as follows:

| | Full Time | | Part Time | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Head Office | 48 | 45 | 16 | 16 |
| Branch Offices | 5 | 4 | 1 | 2 |
| | **53** | **49** | **17** | **18** |

## 6. Remuneration of and Transactions with Directors and other Related Party Transactions

**a) Directors' remuneration**
Total Directors' remuneration amounted to £604,316 (2021: £581,534). Full details of the Directors' remuneration and key management compensation are given in the Nominations & Remuneration Committee Report on page 21.

**b) Directors' loans and transactions**
At 7 February 2022 there were 3 (2021: 3) outstanding mortgage loans to 3 (2021: 3) Directors and connected persons that had been granted in the ordinary course of business, amounting in aggregate to £464,261 (2021: £516,103). All mortgage loans have the same terms and conditions as available to Members of the Society.

A Register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 7 February 2022, will be available for inspection at the Head Office for a period of 15 days up to and including the 163rd Annual General Meeting being held on 24 May 2022.

**c) Other Directors' transactions**
All Directors of Building Societies are required to maintain a savings balance of at least £1,000 each in that Society. All accounts have the same terms and conditions as available to Members of the Society. At 7 February 2022 the aggregate balances were £75,256 (2021: £74,924).

**d) Key management compensation**
Key management comprise Non-Executive Directors, Executive Directors and Material Risk Takers. The compensation paid or payable to key management for employee services is shown below:

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Salaries and other short-term benefits | 1,252 | 1,185 |

Directors have no long-term incentive schemes or defined benefit pension schemes. During the year the Society made payments into a defined contribution pension scheme on behalf of Executive Directors and this is shown in the Nominations & Remuneration Committee Report on page 21.

**e) Related party transactions**
The Society holds an investment in Mutual Vision Technologies Limited as detailed in note 11.

During the financial year a total of £402,011 (2021: £311,244) was paid to Mutual Vision Technologies Limited in respect of IT services.

As at 7 February 2022, an amount of £112,764 (2021: £126,210) was owed to the Society by Mutual Vision Technologies Limited in respect of prepaid software maintenance services. In addition, as at 7 February 2022 an amount of £210,973 (2021: £153,173) was owed to the Society by Mutual Vision Technologies Limited in respect of prepaid software development services.

## 7. Tax on Profit on Ordinary Activities

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **a) The tax charge for the year comprised:** | | |
| Corporation tax at 19.00% (2021: 19.00%) | 248 | 116 |
| Current tax charge for the year | 248 | 116 |
| Deferred taxation at 19.00% (2021: 19.00%) (note 20) | 16 | 14 |
| Tax on profit on ordinary activities | 264 | 130 |
| **b) Factors affecting the tax charge for the year:** | | |
| The tax assessed for the year differs to the standard rate of corporation tax in the UK 19.00% (2021: 19.00%) | | |
| Profit on ordinary activities before taxation | 1,446 | 705 |
| Taxation charge at 19.00% (2021: 19.00%) | 275 | 134 |
| **Effects of:** | | |
| Capital allowance in excess of depreciation and other timing differences | (27) | (18) |
| Origination and reversal of deferred tax timing differences | 16 | 14 |
| Tax on profit on ordinary activities | 264 | 130 |

The UK deferred tax liability as at 7 February 2022 has been calculated on the 19% corporation tax rate as enacted in April 2020 and the increase in rate to 25% from April 2023, which was enacted in March 2021.

## 8. Loans and Advances to Credit Institutions

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **In the ordinary course of business loans and advances to credit institutions are repayable from the year end date as follows:** | | |
| Accrued interest | 1 | 6 |
| Repayable on demand | 49,610 | 57,247 |
| **Other loans and advances by residual maturity repayable:** | | |
| In more than three months but not more than one year | 250 | 250 |
| | 49,861 | 57,503 |

## 9. Loans and Advances to Customers

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Maturity Analysis: The remaining maturity of loans and advances to customers from the year end date is as follows:** | | |
| **Repayable with remaining maturity:** | | |
| In not more than three months | 2,280 | 2,747 |
| In more than three months but not more than one year | 5,926 | 6,512 |
| In more than one year but not more than five years | 39,560 | 39,490 |
| In more than five years | 210,995 | 191,278 |
| | 258,761 | 240,027 |
| Deduct: Provisions for impairment losses (note 10) | (322) | (445) |
| Add: Effective Interest Rate adjustment (note 1) | 592 | 416 |
| | 259,031 | 239,998 |

Where accounts are in arrears at the year end, the whole of the outstanding balance, including the arrears element, has been included in the appropriate maturity section, depending on the original anticipated date of maturity when the advance was made.

## 10. Provisions for Impairment Losses

| | Loans Fully Secured on Residential Property | | |
|---|---|---|---|
| | £000 Specific | £000 Collective | £000 Total |
| Brought forward 1 February 2021 | 229 | 216 | 445 |
| Utilised during the year | - | - | - |
| (Released)/charged during the year | (160) | 37 | (123) |
| Carried forward 7 February 2022 | 69 | 253 | 322 |
| Brought forward 3 February 2020 | 89 | 142 | 231 |
| Utilised during the year | (2) | - | (2) |
| Charged during the year | 142 | 74 | 216 |
| Carried forward 1 February 2021 | 229 | 216 | 445 |

## 11. Investments

The carrying value of the Society's investment in Mutual Vision Technologies Limited was as follows:

**Investment in Mutual Vision Technologies Limited**

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Brought forward | 154 | 154 |
| Carried forward | 154 | 154 |

The Society holds a 14.60% holding in Mutual Vision Technologies Limited, an unlisted company registered in England and operating in the United Kingdom, originally formed by a consortium of Building Societies to acquire the trade of their existing computer software supplier.

The Company has a 31 December year end. The Society considers key metrics to assess the financial strength of the Company on an annual basis.

On 7 February 2022 the Society's investment, which is an associated undertaking, was represented by:

| | £ |
|---|---|
| 10,812 fully paid 1p Ordinary Shares, (acquired at 0.01p per share) | 108 |
| 1,139 fully paid 1p Ordinary Shares, (acquired at 0.266p per share) | 303 |
| 2,425 fully paid 1p Ordinary Shares, (acquired at 1.774p per share) | 4,302 |
| 6,026 fully paid 1p Ordinary Shares, (acquired at 24.757p per share) | 149,185 |
| **In total, 20,402 shares (giving the Society a 14.60% holding)** | **153,898** |

The Directors of the Society have reviewed the financial performance and financial position of Mutual Vision Technologies Limited as reported in that Company's latest Annual Report. They have also reviewed the Business Plan of Mutual Vision Technologies Limited and have concluded that there has been no impairment of the Society's investment. The Society receives no income from Mutual Vision Technologies Limited and has determined that it is not relevant to include summarised financial information about the investment.

## 12. Intangible Fixed Assets

| | Software £000 | Total £000 |
|---|---|---|
| Cost at 1 February 2021 | 1,251 | 1,251 |
| Additions | 229 | 229 |
| Disposals | (4) | (4) |
| At 7 February 2022 | 1,476 | 1,476 |
| Accumulated amortisation at 1 February 2021 | 963 | 963 |
| Charge in Year | 170 | 170 |
| Disposals | (3) | (3) |
| At 7 February 2022 | 1,130 | 1,130 |
| Net Book Value at 7 February 2022 | 346 | 346 |
| Net Book Value at 1 February 2021 | 288 | 288 |

During the year, the Society made a loss of £745 (2021: nil) on disposal of Software.

## 13. Tangible Fixed Assets

| | Freehold Land & Buildings £000 | Equipment, Fixtures & Fittings £000 | Total £000 |
|---|---|---|---|
| Cost at 1 February 2021 | 1,754 | 753 | 2,507 |
| Additions | - | 43 | 43 |
| Disposals | - | (56) | (56) |
| At 7 February 2022 | 1,754 | 740 | 2,494 |
| Accumulated depreciation at 1 February 2021 | 273 | 661 | 934 |
| Charge in Year | 13 | 48 | 61 |
| Disposals | - | (55) | (55) |
| At 7 February 2022 | 286 | 654 | 940 |
| Net Book Value at 7 February 2022 | 1,468 | 86 | 1,554 |
| Net Book Value at 1 February 2021 | 1,481 | 92 | 1,573 |

Freehold land and buildings are occupied by the Society for its own activities.

During the year, the Society made a loss of £1,133 (2021: £69) on disposal of Equipment, Fixtures & Fittings.

## 14. Prepayments and Accrued Income

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Prepayments and accrued income | 503 | 470 |

## 15. Shares

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Shares comprise:** | | |
| Held by individuals | 268,621 | 265,236 |
| **Shares are repayable from the year end date in the ordinary course of business as follows:** | | |
| Accrued interest | 509 | 680 |
| Repayable on demand | 200,027 | 201,025 |
| In not more than three months | 44,329 | 43,616 |
| In more than three months but not more than one year | 8,977 | 8,671 |
| In more than one year but not more than five years | 14,779 | 11,244 |
| | 268,621 | 265,236 |

## 16. Amounts owed to Credit Institutions

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Repayable from the year end date in the ordinary course of business as follows:** | | |
| Accrued interest | 7 | 17 |
| In not more than three months | 1,500 | 3,500 |
| In more than three months but not more than one year | 5,250 | 4,250 |
| | 6,757 | 7,767 |

## 17. Amounts owed to Other Customers

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Repayable from the year end date in the ordinary course of business as follows:** | | |
| Accrued interest | 3 | - |
| Repayable on demand | 873 | 872 |
| In more than one year but not more than five years | 12,500 | 5,000 |
| | 13,376 | 5,872 |

Included in the amounts above for 7 February 2022 is £12,500,000 (2021: £5,000,000) borrowed from Bank of England under the Term Funding Scheme. As at 7 February 2022, mortgages with total redemption balances of £48,911,325 were pledged as collateral in relation to the borrowed funds. £2,500,000 is due to be repaid on 2 September 2024, £2,500,000 is due to be repaid on 17 September 2024, £2,500,000 is due to be repaid on 30 June 2025, £2,500,000 is due to be repaid on 22 August 2025 and £2,500,000 is due to be repaid on 17 October 2025.

## 18. Other Liabilities

| | 2022 £000 | 2021 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Corporation Tax | 248 | 116 |
| Other creditors | 69 | 90 |
| | 317 | 206 |

## 19. Accrual and Deferred Income

| | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Accruals | 570 | 370 |

## 20. Provision for liabilities

| | 2022<br>£000 | 2021<br>£000 |
|---|---|---|
| Deferred taxation | 24 | 8 |
| | | |
| **Deferred Taxation** | | |
| Brought forward | 8 | (6) |
| Amount utilised during the year | 16 | 14 |
| | 24 | 8 |
| | | |
| The amounts recognised for Deferred Taxation are set out below: | | |
| Excess of capital allowances over depreciation | 74 | 63 |
| Other timing differences | (50) | (55) |
| | 24 | 8 |

The UK deferred tax liability as at 7 February 2022 has been calculated on the 19% corporation tax rate as enacted in April 2020 and the increase in rate to 25% from April 2023, which was enacted in March 2021.

## 21. Pension Costs

The Society contributes to a defined contribution staff pension scheme, the premiums for which are reviewed annually in consultation with independent pension advisors. The funds in the scheme are held separately from those of the Society. The scheme is operated on a contributory and non-contributory basis for employees. Contributions totalling £142,635 (2021: £130,295) were paid during the year.

## 22. Financial Instruments

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

The Society has a formal structure for managing risk, including establishing risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Assets & Liabilities Committee which is charged with the responsibility for managing the Society's exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes may include derivative financial instruments ("derivatives"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

### Derivatives

Derivatives will only be used by the Society in accordance with the Building Societies Act 1986. They are used solely to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation and are not used for trading or speculative purposes.

There were no derivatives held at or during the year end and prior year end.

### Financial Instrument Classification

The recognition and measurement of Financial Instruments is set out in the Accounting Policies (note 1). The following table shows the assets and liabilities of the Society assigned to the categories by which they are recognised and measured:

| | Financial assets that are debt instruments measured at amortised cost | | Financial liabilities carried at amortised cost | | Total | |
|---|---|---|---|---|---|---|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| **Assets** | | | | | | |
| Cash in hand | 234 | 309 | - | - | 234 | 309 |
| Loans and advances to credit institutions (note 8) | 49,861 | 57,503 | - | - | 49,861 | 57,503 |
| Loans and advances to customers (note 9) | 259,031 | 239,998 | - | - | 259,031 | 239,998 |
| | 309,126 | 297,810 | - | - | 309,126 | 297,810 |
| **Liabilities** | | | | | | |
| Shares (note 15) | - | | 268,621 | 265,236 | 268,621 | 265,236 |
| Amounts owed to credit institutions (note 16) | - | | 6,757 | 7,767 | 6,757 | 7,767 |
| Amounts owed to other customers (note 17) | - | | 13,376 | 5,872 | 13,376 | 5,872 |
| Other creditors (note 18) | - | | 69 | 90 | 69 | 90 |
| Accruals (note 19) | - | | 570 | 370 | 570 | 370 |
| | - | | 289,393 | 279,335 | 289,393 | 279,335 |

## Financial Risk Management

The Society's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and market risk (including interest rate risk).

## Liquidity Risk

This is the risk that the Society is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Society's Financial Risk Management Policy (FRMP) ensures sufficient funds in liquid form are available at all times to cover cash flow imbalances and fluctuations in funding, to maintain public confidence in the solvency of the Society and enable it to meet its financial and regulatory obligations. Stress tests are carried out regularly to confirm that the Society can withstand normal and abnormal cash outflows.

The liquidity position is managed daily by the treasury function. Liquidity risk is monitored by the Assets & Liabilities Committee which meets on a monthly basis to monitor the amount and composition of liquidity, the credit ratings of counterparties used and to ensure compliance with regulations. The FRMP is regularly reviewed by the Assets & Liabilities Committee and approved by the Board.

The tables below set out maturity analysis for financial liabilities that show the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest calculated at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

| The maturity analysis of the financial liabilities of the Society at 7 February 2022 was: | Undefined £000 | ≤ 3 Months £000 | > 3 Months - ≤ 6 Months £000 | > 6 Months - ≤ 1 Year £000 | > 1 Year - ≤ 5 Years £000 | > 5 Years £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Amounts owed to credit institutions | - | 1,503 | 2,756 | 1,507 | - | - | 5,766 |
| Amounts owed to other customers | 873 | - | 1,002 | - | 12,508 | - | 14,383 |
| Shares | 222,787 | 243 | 5,006 | 6,164 | 26,006 | 9,326 | 269,532 |
| Off balance sheet commitments | - | 17,365 | 10,472 | - | - | - | 27,837 |
| Total | 223,660 | 19,111 | 19,236 | 7,671 | 38,514 | 9,326 | 317,518 |

| The maturity analysis of the financial liabilities of the Society at 1 February 2021 was: | Undefined £000 | ≤ 3 Months £000 | > 3 Months - ≤ 6 Months £000 | > 6 Months - ≤ 1 Year £000 | > 1 Year - ≤ 5 Years £000 | > 5 Years £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Amounts owed to credit institutions | - | 2,513 | 1,756 | 1,504 | - | - | 5,773 |
| Amounts owed to other customers | 872 | 1,000 | 1,001 | - | 5,001 | - | 7,874 |
| Shares | 219,321 | 3,928 | 1,288 | 9,861 | 19,820 | 12,210 | 266,428 |
| Off balance sheet commitments | - | 17,249 | 2,669 | - | - | - | 19,918 |
| Total | 220,193 | 24,690 | 6,714 | 11,365 | 24,821 | 12,210 | 299,993 |

Off balance sheet commitments pertain to amounts payable on demand for undrawn mortgage commitments and have been included accordingly.

## Credit Risk

This is the risk that borrowers or counterparties to whom the Society has lent money may be unable to meet their obligations as and when they fall due.

Counterparty credit ratings are used to inform the Society's assessment of wholesale credit risk. The table below provides ratings details for the Society's treasury investment portfolio as at 7 February 2022 using the equivalent Fitch long-term deposit rating assessment.

### Credit Rating

| | 2022 % | 2021 % |
|---|---|---|
| AAA to AA- | 92.76 | 89.91 |
| A+ to A- | 7.24 | 10.09 |
| | 100.00 | 100.00 |

Maturity groupings, based on the remaining period at the year end date to the contractual maturity date, have been disclosed in the notes to the financial statements, see note 8.

The Society manages the risk associated with mortgage borrowers by means of a Board approved Lending Policy which includes a full status check and affordability assessment of the borrower and a full valuation of the proposed security by a suitably qualified valuer. Mortgages are closely monitored following completion, with appropriate and timely action taken on those mortgages which fall into arrears. The Mortgage Credit Risk Committee reviews trends and indicators by monitoring product and sector limits, together with detailed analyses of arrears and loan-to-value ratios.

**The Society's exposure to retail credit risk can be broken down as below and includes all mortgage offers as at 7 February 2022:**

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Residential mortgages | 261,419 | 240,905 |
| Commercial lending | 3,385 | 3,393 |
| | 264,804 | 244,298 |

The Society monitors individual borrowers but also sets and applies limits to manage concentration risk.

**The Society's geographical concentration of residential mortgage loans is as follows:**

| Region | 2022 % | 2021 % |
|---|---|---|
| North West | 28.23 | 29.65 |
| Outer South East | 10.66 | 10.23 |
| Outer Metropolitan Area | 9.10 | 9.04 |
| South West | 8.08 | 8.65 |
| Greater London | 8.04 | 7.73 |
| West Midlands | 7.90 | 7.22 |
| Yorkshire & Humberside | 7.26 | 6.91 |
| East Midlands | 5.74 | 5.54 |
| Scotland | 4.73 | 4.61 |
| North | 4.19 | 4.31 |
| Wales | 3.50 | 3.52 |
| East Anglia | 2.57 | 2.59 |
| | 100.00 | 100.00 |

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan made and the value of the underlying security, which is known as the loan-to-value percentage (LTV). In general, the lower the LTV percentage the greater the equity within the property and the lower the losses expected to be realised in the event of default and subsequent repossession.

The Society sets strict LTV criteria for new loans, which must be supported by an external valuation of the security. The LTV profile of the Society's book is monitored closely against the limits set by the Mortgage Credit Risk Committee.

**The indexed LTV analysis of the Society's loan portfolio is as follows:**

| | 2022 % | 2021 % |
|---|---|---|
| ≤60% LTV | 63.00 | 53.50 |
| >60-70% LTV | 17.88 | 20.27 |
| >70-80% LTV | 13.79 | 15.13 |
| >80-85% LTV | 2.15 | 6.32 |
| >85-90% LTV | 2.72 | 3.78 |
| >90% LTV | 0.46 | 1.00 |
| | 100.00 | 100.00 |

The Society's overall weighted average LTV ratio is 52% (2021: 56%).

**The table below provides further information on the Society's loans and advances to customers excluding the impact of impairment provisions and EIR adjustments by payment due status as at 7 February 2022:**

| | 2022 £000 | 2022 % | 2021 £000 | 2021 % |
|---|---|---|---|---|
| **Not Impaired** | | | | |
| Neither past due or impaired | 253,379 | 97.92 | 236,417 | 98.50 |
| Past due up to 2 months but not impaired | 3,101 | 1.20 | 1,810 | 0.75 |
| **Impaired** | | | | |
| Past due 2 to 3 months | 369 | 0.14 | 122 | 0.05 |
| Past due 3 to 12 months | 1,274 | 0.49 | 1,023 | 0.43 |
| Past due over 12 months | 638 | 0.25 | 655 | 0.27 |
| Possessions | - | - | - | - |
| | 258,761 | 100.00 | 240,027 | 100.00 |

### Collateral Held

**The Society holds collateral in the form of property against loans and advances to customers as follows:**

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Property against impaired loans and advances to customers | 4,646 | 3,264 |
| Property against non-impaired loans and advances to customers | 757,988 | 651,297 |
| | 762,634 | 654,561 |

### Forbearance

A range of forbearance options are available to support borrowers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include reduced monthly payments, an arrangement to clear outstanding arrears, alternative repayment types, capitalisation of arrears or extension of the mortgage term.

**The following table analyses residential mortgage borrowers with renegotiated terms:**

| | 2022 Number | 2021 Number |
|---|---|---|
| Arrangements | 16 | 13 |
| Interest-only | 11 | 15 |
| Extension of term | 2 | 2 |
| Capitalisation | 4 | 15 |
| | 33 | 45 |

Impairment provisions of £77,175 (2021: £95,494) are held in respect of these mortgages, see note 1.

### Interest Rate Risk

This is the risk that the value of, or income from, assets and liabilities change adversely, as a consequence of movements in interest rates. The Society is susceptible to interest rate risk due to the differing interest rate characteristics and maturity profile of its mortgage and savings products. The risk, which includes basis risk, is managed using conservative Board approved limits, offsetting assets and liabilities and the use of financial derivative instruments where appropriate in accordance with the Financial Risk Management Policy. This is regularly reviewed by the Assets & Liabilities Committee and approved by the Board.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various interest rate scenarios. The key scenario that is considered on a monthly basis is that of a 200 basis point (bps) parallel fall or rise in the yield curve.

**The interest rate sensitivity of the Society at 7 February 2022 was:**

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Sensitivity to profit and reserves | | |
| 200bps parallel increase | 82 | 77 |
| 200bps parallel decrease | (91) | (84) |

### Capital Management

The Board's objective when managing capital is to safeguard the Society's ability to continue as a going concern in order to provide long-term benefits for Members and other stakeholders. Regulatory capital consists of the Society's general reserves, which are profits of the Society accumulated over the last 163 years. The Society manages its capital requirements through the annual Internal Capital Adequacy Assessment Process (ICAAP). This is carried out in conjunction with the Prudential Regulation Authority (PRA). The ICAAP is closely monitored by the Board and the Board receive regular updates on the amount of capital held and the amount of headroom the Society has over its required level of capital.

The required level of capital is set by the PRA through the Society's Total Capital Requirements (TCR). This allows the Board to ensure that the quantity and quality of capital held is both sufficient and appropriate to mitigate the risks the Society faces and to safeguard Members' interests.

There were no breaches of capital requirements during the year and there have been no material changes in the Society's management of capital during the year. The Society is required to set out its capital position, risk exposures and risk assessment process in its Pillar 3 disclosure document. This is available on the Society's website www.chorleybs.co.uk or may be obtained by writing to the Secretary at the Society's Head Office.

## 23. Country-By-Country Reporting

The reporting obligations set out in Article 89 of the European Union's Capital Requirements Directive V (CRD V) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations.

The Society has assets in excess of £311 million.

As a mutual organisation the Society's primary focus is its Members and it aims to provide mortgage and savings products supported by excellent customer service.

The financial statements include the audited results of the Society. The principal activities are detailed in the Annual Report and Accounts. The Society was incorporated in the United Kingdom.

**For the year ended 7 February 2022:**

- Net interest income was £5.8m (2021: £4.9m), profit before tax was £1.4m (2021: £0.7m) all of which were arising from UK-based activity. Net interest income is calculated as interest receivable and similar income less interest payable and similar charges.
- The average number of full-time equivalent employees was 63 (2021: 58) all of which were employed in the UK.
- The Society paid £0.2m of corporation tax in the year (2021: £0.2m) all within the UK tax jurisdiction.
- The Chorley and District Building Society has not received any public subsidies during the year or in the previous year.

# Annual Business Statement

**For the year ended 7 February 2022**

## 1. Statutory Percentages

| | 7 February 2022 | Statutory Limit |
|---|---|---|
| Proportion of business assets not in the form of loans fully secured on residential property (the “lending limit”) | 0.71% | 25% |
| Proportion of shares and borrowings not in the form of shares held by individuals (the “funding limit”) | 6.97% | 50% |

The above percentages have been calculated in accordance with and the statutory limits are those prescribed by Sections 6 and 7 of the Building Societies Act 1986.

Business assets are the total assets of the Society as shown in the Statement of Financial Position, plus impairment losses less fixed assets and liquid assets.

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

## 2. Other Percentages

| | 7 February 2022 | 1 February 2021 |
|---|---|---|
| **As a percentage of shares and borrowings:** | | |
| Gross Capital | 7.63% | 7.47% |
| Free Capital | 7.05% | 6.88% |
| Liquid Assets | 17.35% | 20.73% |
| | | |
| **As a percentage of mean total assets:** | | |
| Profit after Taxation | 0.39% | 0.20% |
| Management Expenses | 1.49% | 1.40% |

The above percentages have been prepared from the Society's accounts:

- “Shares and borrowings” represent the total of shares, amounts owed to credit institutions and amounts owed to other customers
- “Gross capital” represents the general reserve
- “Free capital” represents the aggregate of gross capital and collective impairment losses less intangible and tangible fixed assets
- “Mean total assets” represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- “Liquid assets” represent the total of cash in hand, loans and advances to credit institutions, debt securities and treasury bills
- “Management expenses” represent the aggregate of administrative expenses and depreciation.

# Directors at 7 February 2022

| Name | Date of Birth | Date Co-opted | Business Occupation | Other Directorships |
|---|---|---|---|---|
| David Bagley | 09.02.56 | 29.07.16 | Chartered Accountant | Finance Yorkshire Ltd<br>Gradcore Ltd<br>GDBA Pension Fund Ltd<br>Leeds Arts University<br>Progressive Care Ltd<br>University of Sheffield |
| Kevin Bernbaum | 12.12.62 | 25.06.14 | Treasury & Risk Consultant & Company Director | Educo Ltd<br>Roma Finance Ltd<br>Peartree Advisors Ltd<br>Rangemountain Ltd |
| Julia Cattanach | 06.08.71 | 03.02.22 | Chief Risk Officer | Experian Group Ltd<br>Experian Ltd<br>International Communication & Data Ltd<br>Runpath Group Ltd<br>Runpath Pilot Ltd<br>Runpath Regulated Services Ltd<br>Tallyman Ltd<br>Experian Specialist Information Ltd |
| Joanna Hall | 09.04.65 | 01.06.19 | Marketing Director | AON Retirement Plan<br>Brewin Dolphin PLC |
| John Sandford | 18.03.55 | 25.06.14 | Chartered Accountant | Johnnie Johnson Housing Trust<br>Epworth Investment Management Ltd<br>Cheadle Golf Club (Trading) Ltd<br>Cheadle Golf Club (Catering) Ltd<br>Central Finance Board of the Methodist Church<br>Edward Mayes Trust<br>Mr. Lum's Almshouses<br>McKellens Outsourcing LLP<br>CopperPot Credit Union (Advisor) |
| Gail Teasdale | 26.02.68 | 01.10.20 | Chief Executive | National Housing Federation |
| Stephen Penlington | 18.11.58 | 20.05.06 | Chief Executive | None |
| Angela Kos | 24.07.78 | 01.04.13 | Finance Director | None |
| Kimberley Roby | 07.04.82 | 01.09.17 | Customer Services Director | None |

The Non-Executive Directors have contracts for services and are appointed for an initial term of three years.

The Chief Executive is employed on a contract of employment that may be terminated by either party giving twelve months' notice.

The Finance Director and Customer Services Director are employed on a contract of employment that may be terminated by either party giving six months' notice.

**Documents may be served on the above named Directors c/o the Society's Auditor, Mazars LLP, One St Peter's Square, Manchester, M2 3DE.**

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TRUSTED SINCE 1859


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