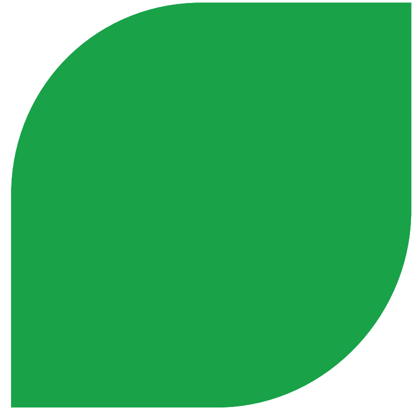
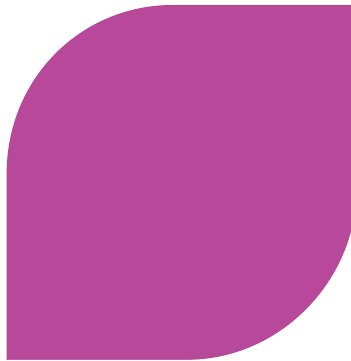




The Nottingham

2021 ANNUAL REPORT AND ACCOUNTS

CONTENTS

04 Chairman's statement

06 Chief Executive's review

09 Strategic report

19 Corporate responsibility report

22 Sustainability report

26 Your Board of directors

28 Directors' report

31 Risk management report

36 Corporate governance report

40 Board Audit Committee report

42 Directors' remuneration report

47 Independent auditor's report

54 Income statements

55 Statements of comprehensive income

56 Statements of financial position

57 Statements of changes in members' interests

58 Cash flow statements

59 Notes to the accounts

116 Annual business statement

118 Glossary

KEY HIGHLIGHTS

Against the backdrop of the challenges from the ongoing pandemic, the Society has continued its progress in the delivery of its unique member proposition and its journey into the digital world of financial services; whilst demonstrating its mutual ethos to members, colleagues and its communities.

Below are some of the key achievements and financial highlights of 2021:

We strive to help and support our members to save, plan for and protect their financial futures

- Strong capital position with CET 1 ratio at 16.5% and leverage ratio of 5.6%
- Group pre-tax profit of £15.1m; £7.4m on underlying basis
- Gross mortgage lending up 13% at over £550m for 2021; resulting in total assets of £3.6 billion
- Arrears levels remain very low at a quarter of industry average
- New Beehive Money app launched looking after more than 55,000 Lifetime ISA customers
- Present in 48 locations across nine counties with a strong retail franchise – total branch balances of £2.5 billion
- Net Promoter Score of 71% and employee engagement score of 80%
- Net interest margin of 1.24%; up 17 basis points from 1.07%

CHAIRMAN'S STATEMENT

Introduction

Living through the pandemic over the past two years has been an unprecedented experience and 2021 has challenged us all, as the pandemic dominated our lives for another 12 months. On the one hand, the fact that many of us have been vaccinated has allowed some normality to return and in July we saw a major easing of the national lockdown. However, we have also seen new variants emerge, resulting in waves of new cases and intermittent lockdowns causing continued restrictions in our normal lives. A prevailing sense of caution has led to changes in behaviour and the knock-on impacts of these have led to uneven and unexpected challenges for parts of the UK economy, for individuals and society at large. As a Society, we have also needed to continuously adapt to this uncertain environment and I would like to start my report by thanking all of our colleagues for their exceptional dedication and effort over this year, and throughout the ongoing pandemic, in meeting our members' needs whilst facing into their own professional and personal challenges.

This has been a real team effort and as an essential service provider, we should be proud that we have kept our network of branches open whenever possible. I would like to thank our frontline colleagues who have continued to maintain member services throughout the periods of lockdown and restrictions.

Fundamentally our three priorities have remained and will remain the same:

- Ensuring the wellbeing of colleagues;
- Protecting and serving our members; and
- Supporting our communities

You can see throughout our annual report how we've performed against those priorities, and also how we plan to continue to ensure that we can do this sustainably for the long-term. Deploying capital judiciously to serve members' interests and ensure that The Nottingham remains relevant to existing and future members remains a guiding principle of the Board, as we invest in our services and reinvent the Society for a more digital future.

A year of continued low interest rates with emerging inflationary pressure

In economic terms, we have an unsustainable mixture of low interest rates and rising inflation. Continued government responses to the pandemic have created strong liquidity during 2021, but the medium-term implications of withdrawing these support mechanisms in an inflationary environment remain uncertain. The Board continues to monitor market and macroeconomic developments closely. In December, the Monetary Policy Committee (MPC) surprised the market with its first rate rise and a further rise followed in February. All signs indicate increasing interest rates in 2022, although the exact timing and quantum of any further increases continue to be unclear. Negative interest rates are now much less likely in the short to medium-term than when we entered 2021, however inflationary pressures mean that real interest rates could remain negative for some time.

A very competitive business environment with low base rates and high levels of liquidity available to those focused on the mortgage lending market (including the ring-fenced retail banks who benefit from both low cost of funds on their current accounts and greater market share and scale) has meant historically low interest rates have been available to borrowers throughout the year. Combined with the limited supply of housing stock for sale, and the impact of temporary stamp duty reductions, this has led to buoyant market conditions and continuing rising house prices.

The rates available in the mortgage market have a knock-on impact on what we can afford to pay savers. We have sought to pay what we can while maintaining a prudent margin so that we can continue to invest in the long-term sustainability of the Society.

Strategy and progress

Both for the short-term and the long-term, we've had to continue to think about how we will deal with our customers' changing expectations and how best we, and our strategic partners can meet those needs. As we saw last year, the pandemic and lockdowns have accelerated some of the longer-term trends – for example in the acceptance of digital interaction with financial service providers and in increasing use of cashless payments. David sets out in his Chief Executive's review an update on the major changes we've made in 2021. This includes the divestment of Nottingham Mortgage Services (NMS), the launch of the Beehive Money app and the strategic partnership with Mortgage Advice Bureau (MAB), which represent tangible strides forward towards a more digital Society, able to serve the needs of younger and future members.

This will be a major focus for the Board in 2022 as we address the emerging medium-term landscape which the pandemic and broader economic conditions are creating.

Supporting our communities

As we think about the longer-term future of the Society, we also focus on our wider communities. We encourage team members to be involved locally to make a difference in each community as well as the support we give centrally to key initiatives in relation to supporting our young people to aspire and achieve their potential, financial education, and our newly established Samuel Fox Foundation to facilitate delivery of our contribution. During 2021, we've also looked more holistically at all the ways we deliver against our mutual ethos and do the right thing as an organisation, through our Responsible Society agenda, which includes communities and environment as well as people. The Corporate responsibility report gives more detail of how we help.

An enhanced focus on climate change has been a priority for the Society and we have considered and defined an appropriate strategic response for the Society to play its part, both at a personal and corporate level, starting with those areas over which we have direct control.

Board activity

The Board's primary role is to ensure that the Society protects the long-term interests of current and future members, which has been more complex and challenging over the past two years as a result of the pandemic. Operationally, the Board has had to adapt the way it conducts its business with many more virtual meetings being required due to Covid-19 restrictions. The Board has been closely involved during the year in overseeing the effective deployment and investment of capital in the ongoing reinvention of the Society.

Board development

We were delighted to welcome Peter O'Donnell to the Board in January 2021. Peter stood down during the year as chief executive of Unum's UK business. His career in financial sector businesses includes senior finance roles at Prudential, RSA and Aviva.

We are very grateful to Michael Brierley for his stewardship of the Audit Committee over the past two years. He is not standing for re-election as a director and will step down from the Board at the end of the AGM to focus on increasing responsibilities in his other roles and family commitments.

As we announced in July, David Marlow is stepping down as Chief Executive during 2022. He took over in the aftermath of the financial crisis in 2011. The Society has grown both its capital base from £148m to £219m and its mortgage portfolio from £1.9 billion to £3.0 billion over that period and has done so in a measured and safe and secure way. Over that period we have made significant investments, both visible and invisible, in systems, processes and people. David is rightly proud of the readiness of the Society to face up to the continuing changes and the digital future.

I am delighted that Sue Hayes is joining the Society as the new Chief Executive. She joins us from GB Bank after a career in retail financial services including time at Aldermore Bank as well as senior roles at HBOS, Santander and Barclays Bank. Her extensive knowledge of retail financial services will be critical in the next phase of our reinvention strategy.

She finds a Society ready for the future and ready to adapt to the many and accelerating changes we will face in the decade to come. We have anticipated and will continue to expect changes to customer expectations with increased digital adoption and reduced cash usage, changes to regulation with adoption of a strong and simple post-Brexit regime, yet continuing market and competitor pressures.

Outlook

Whilst we all hope that the pandemic will abate in the coming year, or at least shift to an endemic, which we learn to live with; nonetheless we also recognise a period of extreme uncertainty will continue as the economic, socio-political and behavioural impacts of Covid-19 continue to unwind and a new normal emerges over the years ahead.

As a Board we will continue to develop and evolve our strategy as events unfold and ensure that the Society remains relevant and sustainable for current and future members. We believe that our current strategy and achievements to date in reinventing the Society position us well for that future.

Thank yous

During 2021, we have had to further adapt our business model and ways of working at short notice in response to evolving restrictions and our continuous assessment of risk. On behalf of the Board, I want to pay tribute again to the teams who have ensured that you, our members and customers, have been able to access the services you needed from us, whether colleagues have been working in the branches, in the office or from home.

I want to thank the Board for their support in addressing all the changes we have made in the development, and execution of our strategy.

I want to repeat our thanks to David for his steady thoughtful and incisive leadership of the Executive team and the Society over the past 10 years.

Finally, I want to thank you, our members and customers, for the support you have shown us as we have worked through the restrictions and made tangible progress forward in our strategy of reinventing the Society.

Andrew Neden
Chairman

3 March 2022

CHIEF EXECUTIVE'S REVIEW

Entering 2021, we had a number of key areas on which to focus our energies: the ongoing Covid-19 pandemic; the significant economic uncertainty brought about by a combination of the pandemic and Brexit; our intent to reinvent the Society for the emerging new world; continue to act as a responsible society accepting our responsibilities to stakeholders, communities and the environment; and to continue to grow membership, whilst delivering a level of financial performance that would sustain us for the future.

Whilst the challenges of the pandemic remain, I am delighted to report good progress on the development and delivery of our strategy, as well as a return to strong financial performance providing the platform for continued investment and growth.

The ongoing pandemic

Despite entering 2021 in national lockdown, I doubt many of us would have predicted that we would end the year under the same threat, due to the Omicron variant. We have become accustomed to living with varying degrees of restrictions and controls, whilst maintaining the priorities of keeping our team members safe and continuing to serve our members.

Through the amazing commitment of our team members and the enduring support and understanding of our members, we have managed this well and I am enormously proud of that achievement.

We have not been immune from the challenges and sadness that the virus has brought but we have responded strongly, focusing on ensuring that we continue to serve our members, helping them to save, plan and importantly protect their futures. Whatever the next phase of the pandemic brings in 2022, we will continue to face it with the same stoicism and purpose that we have done for the past 21 months.

Reinventing the Society

The rapidly changing world, exacerbated by the pandemic, has required us to reinvent the Society for that newly emerging world. In 2021, we continued our efforts to ensure that we have a proposition that is relevant to a broader community, delivered in the manner which members expect.

In the early part of the year, we completed a number of previously announced branch closures. These were conducted in a professional and sympathetic manner. You may recall that the closures focused on our significant concentration of branches in and around greater Nottingham. Despite closures always being regrettable, I am pleased to confirm that as we end 2021, the vast majority of members having chosen to stay with us. We are very grateful for their understanding and loyalty.

A significant focus for 2021 was to relaunch our Beehive Money digital platform as an app-led savings capability for younger savers looking to take advantage of the government tax-free and Lifetime ISA (LISA) savings regime. Our vision is to offer a market leading savings app that helps younger savers achieve their goals through saving and enabling access to first class independent advice on matters that are important to them.

We were delighted to launch our app to existing members in September and to the whole market at the end of November. This is a first for a UK Building Society offering a 'FinTech' standard savings capability, with access to independent mortgage advice; essential as around 80% of Beehive members are savings with us to buy their first home. I am delighted to say that at the end of 2021, we have over 55,000 members saving with us in Beehive Money. We are excited at the new opportunities for growth and innovation that Beehive Money brings us, along with a completely new cohort of younger savings members. In 2019, 26% of savings members were under 40 years of age. That is now 39% and growing.

As we developed the Beehive Money platform and saw the significant rise in members, especially those saving with us to buy their first home, it prompted us to look at our capacity and capability to deliver digital-led independent mortgage advice at scale in the years ahead. Following a review of our group in-house capability, we launched a formal process to find a strong digital-led partner for our mortgage advice offering.

Following a competitive bid process, we were delighted to announce a new partnership with Mortgage Advice Bureau (MAB) and Belvoir. Combining MAB's market leading mortgage network and digital capability with Belvoir's national high street based advisors, we agreed to sell our own mortgage broking business (Nottingham Mortgage Services) to Belvoir and have entered a long-term distribution agreement with MAB/Belvoir for the provision of independent mortgage advice. Many of our members continue to be served by their existing advisor whilst also giving us access to digital capability and significant advisor capacity to serve the growing number of Beehive members. Beehive members can access the advice they need to find the right mortgage for their first home direct through the Beehive Money app – a modern approach for today's first-time home buyer.

In the face of intense mortgage competition outlined by the Chairman, we have continued to enhance and widen our mortgage offering. A series of improvements have been introduced, with several developments also in progress that include rewarding brokers for retaining Society mortgage customers, enhancements to make our Limited Company buy-to-let offering even more relevant to our customers, as well as plans to enter the growing holiday let market. These enhancements are viewed as initial attempts to broaden our appeal as a lender with more to come in 2022 and beyond.

A responsible society

With the seismic global changes comes a stronger focus on being a responsible organisation which embraces our responsibilities to our employees and members, as well as the communities and the environment in which we operate. As a mutual organisation we feel that responsibility even more keenly.

Throughout 2021 we have worked tirelessly to live up to this expectation. In our annual report you will find progress reports and commitments that we are making to our stakeholders, communities and to the environment.

Highlights include over £200,000 of donations made to worthy causes in our communities, over 1,000 hours of colleagues' time volunteered to make a difference and the launch of our Career Academy, in association with national partner Ever-Fi, to provide an employability programme for young people.

Towards the end of the year, we were delighted to launch the Samuel Fox Foundation, named after our founding Chairman and philanthropist. The foundation will focus on building skills and employability in our communities, with a particular focus on enabling young people to fulfil their potential and inspire their futures. We have already made several significant donations from the foundation. We are looking forward to the foundation playing a strong role in encouraging our communities to thrive in the years ahead.

COP26 brought the climate crisis into sharp focus during the year. This reaffirmed that the work we were carrying out to better understand our carbon footprint and then to reduce it, was essential. For the first time this year, our sustainability report outlines our approach to becoming a Net Carbon Zero organisation and includes several commitments, not least to reduce our scope 1 and 2 emissions by at least 10% by the end of 2022. We will continue to work on our plans over the next year or two to fulfil our obligations towards ensuring our climate can sustain the planet as it was intended.

A sustainable performance

Another priority in 2021 was to return to a strong level of financial performance that ensured we could continue to invest in and grow the Society in line with our long-term plans. Despite some significant headwinds, we have been successful in meeting this objective.

In the face of intense competition and sub 1% mortgage pricing, we have managed the growth versus margin dynamic well. Overall, we increased our new mortgage applications by 22% over 2020 but by being selective in the areas we were active, and not being lulled into lending at rates we would not have been comfortable with, we increased our interest margin by 17bps to 1.24%. This has supported an increase in our net interest income of 13% to £45.9m. Overall, our underlying income in the year for the total Group, excluding gains from derivatives has risen 11% to £49m.

Despite the significant ongoing investment in the Society, we have continued to manage our costs well and have also benefitted from the unwinding of some headwinds we experienced in 2020. Our strong focus on good credit quality was rewarded with the robust performance of our lending book, enabling us to release £1.4m of the impairment charge we made on a prudent basis last year. We have also benefitted from the shift in market expectations of interest rates, which have moved from being potentially negative at the beginning of 2021 to an upward track, reflected in the Bank of England's MPC decision to increase rates in December and February to 0.5%.

Overall, this has delivered a total Group profit before tax of £15.1m and a profit after tax of £12.6m. A profit after tax ratio of 0.34% has returned us to a level that enables capital accretive growth and is a strong response to the deficit we ended up with last year. The full details of our 2021 financial performance can be found in the strategic report.

Quality and strength

The Society continues to enjoy high levels of financial strength and deliver high-quality outcomes to members. The strong performance we have delivered in 2021 only strengthens that position. We have replenished our capital levels, which were already significantly in excess of our regulatory requirements.

Our liquidity position remains incredibly robust with our liquidity coverage ratio standing at 216% supported by continued growth in our branch savings balances, despite the smaller number of branches and very positive growth in our digital balances which have increased by 47% during the year to £343m.

The release in impairment charge of £1.4m reflects the continued high quality of our lending book which, despite the continued uncertainty sees only 47 accounts three or more months in arrears at the end of the year.

Other measures of quality remain strong with our Net Promotor Score of 71 continuing to significantly exceed the financial services benchmark; our complaints ratio of 188 per 100,000 customers also remains at very low levels despite the challenging operating environment; and our employee engagement score of 80% is well ahead of the financial services benchmark and evidences the response we have had from team members to all we have tried to do to support them through these testing times.

Outlook

Despite continued uncertainty, we enter 2022 financially strong and confident that the changes we are making to reinvent the Society are the right ones ensuring that we have a relevant and vibrant future. We can therefore move forward with a strong sense of confidence.

Areas of focus, other than continuing to protect our colleagues and to serve members through the pandemic, will be to continue to fashion our new approach to mortgage lending to reflect the changing landscape and to ensure we can continue to increase levels of lending at a yield we are comfortable with.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Having successfully relaunched Beehive Money, there is much to achieve to build on our strong start and develop the proposition further so that an increasing number of younger savers see Beehive Money as their primary source of support and advice to help them save, plan for, and protect their futures.

We will also ensure that our branch network continues to meet the needs of our traditional passbook-based savers; helping them to save, plan and protect their future. It will be important therefore that we continue to work effectively with our network of partners who enable us to deliver our unique proposition to members.

Thank you and Goodbye

This is my last annual report as Chief Executive having served our members for 11 years as Chief Executive and 16 years overall as an Executive Director.

Having overseen the development and growth of the Society, which is unrecognisable from the organisation I joined in 2006, as well as navigating through a one in 100-year global financial crisis, Brexit, ultra-low interest rates, as well as a global pandemic, now feels the right time to hand over the reins to new leadership. The Society is significantly larger and financially stronger than it was 16 years ago and has the capability and vision to move forward as a modern mutual in a digital world.

I am immensely proud of what we as a team have consistently achieved over many years and it has been an honour and privilege to serve our members over that period. The Nottingham will always have a special place in my heart, and I will continue to watch our continued progress with real interest and pride.

My enormous gratitude and respect go to our colleagues and partners for their outstanding efforts in what has been another unique and challenging year. You have all been amazing.

Finally, I'd like to thank our members for continuing to have faith and trust in us to help you save, plan, and protect your futures. I hope that continues for many years to come.

David Marlow
Chief Executive

3 March 2022

STRATEGIC REPORT

Business model and Group strategy

The Nottingham is a top ten UK building society with £3.6bn of assets and a regional presence extending to 48 branches across nine counties.

The essence of a building society is to provide a safe and secure home for members' savings and to use these funds to provide mortgages to members to purchase their homes.

To be successful, we believe a building society should offer more than this and, at the heart of The Nottingham, we have a clear purpose, which is to build enduring membership in savers and borrowers who are looking to receive a proposition based on a combination of advice, price, service and convenience that helps them save, plan and protect for a secure financial future.

The Nottingham aims to support its members in doing the right thing and take steps to plan for their financial futures in addition to just simply saving or borrowing with the Society. This is achieved through the provision of a suitably targeted range of advice services, which provides a choice of product and provider suited to their needs, which may not otherwise be available to them at the price we choose/ are able to offer. In delivering this we expect to build trust, loyalty and advocacy in the membership for the long-term.

During 2021, the Society has continued on its accelerated reinvention journey, driven by the ultra low interest rate environment and resulting pressure on net interest margins, and the wider societal impacts of the Covid-19 pandemic, driving an unprecedented recession and a significant shift in consumer/member behaviour and expectations.

This reinvention follows five key principles as shown in the diagram below:

To maintain our relevance to both existing and future members, our aim is to provide members with a choice of propositions, which is keenly targeted and relevant to their needs, which we see as a combination of the traditional face to face branch and digital/mobile offerings.

The Nottingham remains committed to a strong branch network and our reinvention has been invested to ensure we can continue to maintain the higher quality service provided to members and provide them with an appropriate range of services focused on later life.

The Nottingham recognises that to remain successful in the long-term as a modern mutual, it needs to attract a broader membership and be relevant and attractive to younger customers as well as to the existing branch based members. During 2021, the Society has relaunched its core digital member proposition with its Beehive Money app development.

This puts us in a strong position to meet successfully the expectation of current and future members, at a lower cost to run whilst retaining our industry leading customer service levels.

We now have in excess of 55,000 LISA members within the Beehive Money platform and have helped over 2,400 members buy their first homes using their LISA account.

During 2021 we further widened our partnership model, agreeing a long-term partnership with the Mortgage Advice Bureau (MAB), to provide our members with access to first class expert mortgage advice. As a result of the new partnership, we also saw the sale of our mortgage advice subsidiary, Nottingham Mortgage Services Ltd, to the Belvoir group during the year.

Group membership hubs

The Nottingham's unique proposition places us in a strong position to meet our customers' needs and deliver advice, choice, service and value. As a result of the business changes during 2021, the Society now operates under three distinct membership hubs, supported by our strategic partners:

- **Branch** – providing traditional face-to-face savings propositions and advice services, including investment and personal financial planning estate agency, funeral planning and insurance offered through our partnership with independent third parties.
- **Digital savings (Beehive Money)** – Our online platform and mobile app, providing access to digital savings accounts, including LISAs, as well as direct access to digital expert mortgage advice through our MAB partnership.
- **Mortgages** – Our intermediary-led lending hub, offering a wide variety of mortgages, to home owners, landlords and small commercial entities.

STRATEGIC REPORT (CONTINUED)

STRATEGIC OBJECTIVES

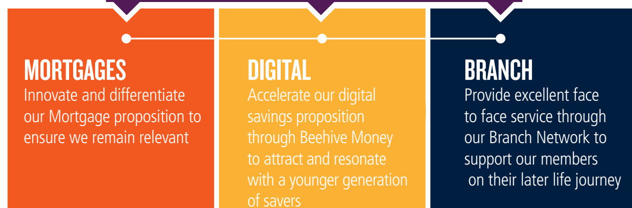
RESPONSIBLE SOCIETY
To create and maintain an environment where our people can be at their best, work together to deliver the Society's strategic goals and feel valued and rewarded for their unique contribution. This incorporates driving forward our diversity and inclusion agenda, our continued commitment to support and do good in our communities and making progress on becoming a more environmentally sustainable society.

PEOPLE
ENVIRONMENT
COMMUNITY

MEMBERSHIP
To continue to grow our membership, delivering our purpose to support members to save, plan and protect for the future, and serve them excellently.

SAFE & SECURE
To safeguard the things that matter most, ensuring that the Society, our members and team members remain safe and secure and operate within Board approved risk appetites.

REINVENTION
To deliver our differentiated member focused strategy in 3 core areas:



MORTGAGES
Innovate and differentiate our Mortgage proposition to ensure we remain relevant

DIGITAL
Accelerate our digital savings proposition through Beehive Money to attract and resonate with a younger generation of savers

BRANCH
Provide excellent face to face service through our Branch Network to support our members on their later life journey

Basis of presentation

KEY PERFORMANCE INDICATORS CONTINUING BASIS	Group 2021	Group 2020
Net interest margin	1.24%	1.07%
Group management expenses ratio	1.17%	1.21%
Profit after tax ratio	0.34%	(0.19)%

Following the sale of the mortgage broking business during the year, the statutory income statements on page 54 have been presented on a continuing basis. However, the Board has managed the overall performance on a total Group basis throughout the period.

The difference in financial outcomes when considered on a total Group basis as opposed to the continuing basis are not material in the context of the overall understanding of the financial performance covered in this report.

Therefore the following financial performance review is considered in totality, and not separated between continuing and discontinued performance, as referenced in the segmental analysis presented in note 2 of the financial statements.

Business performance

The Chief Executive's review includes a summary of factors affecting our performance in 2021 and should be read in conjunction with this report.

Overall the Board is pleased with the performance of the Group in the context of its strategic objectives and external market challenges we continue to face.

The Society as a mutual has no shareholders and does not need to maximise profits but looks to ensure sufficient profits are generated to maintain a strong capital position and enable continued investment in the Society to be sustainable over the longer-term.

The objective is to optimise our net interest margin and profit after tax ratio so that we balance the requirements to offer attractive rates for savers and competitive rates for borrowers.

The Board monitors both reported and underlying profit before tax.

Reported profit before tax is a commonly used comparative measure of profit. However, it includes a number of items which the Board does not believe fully reflect underlying business performance and therefore underlying profit is also used to measure performance.

Underlying profit before tax equates to reported results, adjusted to exclude movements in respect of fair value gains or losses from derivatives and hedge accounting as well as net strategic investment costs supporting the reinvention of the Society and those which are not ongoing in nature, such as asset disposals.

The presentation of underlying profit remains consistent with that in prior years. Further information is provided in this strategic report and a reconciliation of the underlying profit to statutory profit can be found on page 11.

The following financial review section provides a summary of the performance of the Group in the context of its strategic objectives including details of the Group's Key Performance Indicators used to monitor performance.

Financial highlights

INCOME STATEMENT

INCOME STATEMENT TOTAL GROUP BASIS	Group 2021 £m	Group 2020 £m
Net interest income	45.9	40.6
Net fees & commissions receivable	3.1	3.7
Net underlying income	**49.0**	**44.3**
Administrative expenses	(36.2)	(33.6)
Depreciation & amortisation	(6.8)	(7.5)
Underlying management expenses	**(43.0)**	**(41.1)**
Impairment release/(charge) – loans & advances	1.4	(2.9)
Profit of disposal of property, plant & equipment	-	0.1
Underlying profit before tax	**7.4**	**0.4**
Gains/(losses) from derivative financial instruments	7.9	(2.7)
Net strategic investment costs	(0.2)	(4.5)
Change in accounting estimate	-	(1.6)
Reported profit/(loss) before tax	**15.1**	**(8.4)**
Tax (charge)/credit	(2.5)	1.2
Reported profit/(loss) after tax	**12.6**	**(7.2)**
Represents:		
Profit/(loss) after tax – continuing operations	**12.4**	**(7.0)**
Profit/(loss) after tax – discontinued operations	**0.2**	**(0.2)**

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Group 2021 £m	Group 2020 £m
Mortgages	3,010.9	3,128.0
Liquid assets	562.5	592.2
Other assets	61.4	38.2
TOTAL ASSETS	**3,634.8**	**3,758.4**
Retail & wholesale funding	3,370.7	3,479.4
Other liabilities	45.0	72.7
Reserves	219.1	206.3
TOTAL LIABILITIES & RESERVES	**3,634.8**	**3,758.4**

Key performance indicators

CONTINUING GROUP BASIS

Net interest margin **1.24%** 2020: 1.07%

Group management expenses ratio **1.19%** 2020: 1.25%

Profit after tax ratio **0.34%** 2020: (0.19)%

Key performance indicators

TOTAL GROUP BASIS

Profit before tax **£15.1m** 2020: £8.4m loss

Underlying management expenses ratio **1.12%** 2020: 0.97%

Underlying cost income ratio **87.8%** 2020: 92.6%

CET 1% **16.5%** 2020: 15.0%

Arrears ratio **0.21%** 2020: 0.21%

Liquidity Coverage Ratio **216%** 2020: 215%

2021 Financial review and key performance indicators

INCOME STATEMENT REVIEW

The Group's underlying profit before tax increased to £7.4m in 2021 (2020: £0.4m). Total underlying income grew by £4.7m in the year, with an increase in net interest income partially offset by a reduction in net fees and commissions. Underlying management expenses have increased by £1.9m to £43.0m.

Impairment charges on loans and advances of £2.9m recorded in 2020, as a result of the projected macroeconomic uncertainty and risk of borrower defaults created by the Covid-19 pandemic, have partially unwound in 2021 with a £1.4m release; resulting in a total movement of £4.3m. Whilst the overall level of macroencomic uncertainty has reduced during 2021, a degree of uncertainty still remains, particularly in respect of inflation, interest rates and future house prices as well as the risk of further variants and potential additional government measures in response.

Total management expenses have fallen by £3.3m year on year, primarily due to a number of non-recurring costs in the prior year relating to strategic reinvention and change in amortisation estimation.

Beyond the movements detailed above, the Group has also benefitted from a significant derivative movement gain in the year, reversing out the prior period derivative movement losses seen in 2020 and 2019. A reduction in the level of strategic investment expenditure spent on reinvention projects and an increase in the level of income generated from asset disposals has also been seen compared to 2020. The Group has benefited in the year from gains recognised on the sale of freehold properties as well as the sale of its mortgage advice subsidiary. These asset disposal gains are recognised outside of underlying performance.

The Group's reported profit before tax position has moved from a £8.4m loss before tax in 2020 to a £15.1m profit before tax in 2021.

	2021	2020
Net interest income	**£45.9m**	£40.6m

Net interest income increased by £5.3m in 2021, driven by lower interest costs paid following savings rate reductions made in late 2020, six months after the Bank of England base rate had reduce to 0.1%. Widening mortgage asset yields in early 2021 also partially contributed to the increasing net interest margin. However available asset yields have decreased significantly in the second half of 2021. Net interest margin increased to 1.24%, up from 1.07%.

	2021	2020
Net fees & commissions receivable	**£3.1m**	£3.7m

Net total fees & commissions receivable have fallen by £0.6m, predominately reflecting the sale of the estate agency business in 2020 and the sale of the mortgage broking business in July 2021.

	2021 £m	2020 £m
Building Society	3.0	2.1
Total continuing fees receivable	**3.0**	**2.1**
Building Society fees & commissions payable	(0.9)	(1.0)
Net continuing fees receivable	**2.1**	**1.1**
Mortgage Broking & Estate Agency - discontinued	1.0	2.6
Net total fees & commissions receivable	**3.1**	**3.7**

Society fee income consists of commission from mortgage-related insurance products, financial planning and protection, rental income, along with estate agency and mortgage advice referrals.

Society fees and commisisons payable relates to various banking charges and mortgage related charges, which are spread over the life of the initial product term.

The Society's overall net fees and commissions receivable has increased to £2.1m from £1.1m in 2020.

	2021	2020
Management expenses	**£44.1m**	£47.4m

The Group's management expenses includes administrative expenses depreciation, amortisation, and net strategic investment spend for reinvention. Group total management expenses have reduced by £3.3m in 2021, to £44.1m.

	2021 £m	2020 £m
People related costs	21.5	21.4
Other administrative expenses	14.7	12.6
Underlying administrative expenses	36.2	34.0
Depreciation and amortisation – underlying	6.8	7.1
Management expenses – underlying	**43.0**	**41.1**
Strategic investment costs – admin	1.1	4.3
Depreciation, amortisation & change in estimation	-	2.0
Management expenses –strategic	**1.1**	**6.3**
Total management expenses	**44.1**	**47.4**
Represents		
Administrative expenses	37.3	38.3
Depreciation & amortisation	6.8	9.1
	44.1	**47.4**
Underlying management expenses – continuing	43.3	38.1
Underlying management expenses – discontinued	0.8	3.0

Underlying management expenses increased by £1.9m.

The transfer of the estate agency and lettings business and branch optimisation activity in 2020, as well as the sale of the mortgage advice business in 2021 generated savings in underlying administrative expenses. This is offset by additional cost of colleagues supporting the Society's reinvention activity, increased licensing costs related to the Society's Beehive mobile app and the costs associated with the colleague bonus scheme, which was not paid in 2020.

Underlying depreciation and amortisation reduced to £6.8m. Overall this contributed to an underlying management expense ratio of 1.12% (2020: 0.97%).

The Group's underlying cost income ratio reduced to 87.8% from 92.6% as the increase in income outweighed the slightly higher underlying cost base.

Total Group management expenses includes £1.1m of strategic investment cost supporting the Society's reinvention strategy. This reflects costs related to the disposal of the mortgage advice subsidiary and establishment of the new partnership arrangements; Beehive Money development expenditure and costs relating to mortgage reinvention activities. This is offiset by the benefits recognised in relation to early exit of leasehold locations and lower dilapidations costs than expected.

The lower strategic investment costs compared to the prior year are reflective of the progress made in delivering the reinvention strategy.

	2021	2020
Impairment release/(charge)	**£1.4m**	£(2.9)m

An impairment release of £1.4m has been recognised in the year under the forward-looking requirements of the IFRS 9 accounting standard. This reflects a partial reversal of the £2.9m impairment charge recognised in 2020.

The UK's GDP and unemployment levels have shown much more resiliency than anticipated at the end of 2020. However, there remains uncertainty with regards to inflationary pressures, interest rate rises and the impact of these on household affordability and the housing market as well as the ongoing impacts of the pandemic. This could impact our customers' ability to continue to make mortgage repayments in the future.

Despite the ongoing uncertainty in the external environment, the Society's arrears ratio (numer of accounts in three months or more arrears) has continued to stay at low levels, with the ratio at the end of 2021 standing at 0.21% (2020: 0.21%). There were 47 cases (2020: 49) out of over 22,500 accounts across the mortgage book with three months or more in arrears at 31 December 2021. The Society had 3 properties in possession at the year-end point.

The low level of arrears ratio continues to reflect our low risk business model and prudent underwriting approach. We always seek to ensure that customers can afford to meet their mortgage repayments from the outset and it is this approach that has ensured arrears levels have remained below industry average.

However, the current uncertainty in the macroeconomic environment and what may happen to arrears levels and resulting credit losses as we come through the pandemic, remain a key risk to the Society and are reflective of the level of expected credit loss provision held against mortgage assets.

The government-led payment deferral scheme has now come to an end and from over 3,000 customers who were supported with payment deferrals during the period of availability, the significant majority returned to fully paying status, with only a small number of customers requiring further forbearance support from the Society.

The Society's total overall impairment provision as at 31 December 2021 is £3.1m (2020: £4.5m), which equates to 0.10% of the total book.

	2021	2020
Derivative financial instruments gain/(loss)	**£7.9m**	£(2.7)m

The Nottingham predominately uses derivative instruments to manage exposure to changes in interest rates that arise from fixed rate mortgage lending and fixed rate retail savings products, as well as in its secured bilateral funding arrangement. This leads to volatility in income statement results; such volatility would only be realised if we chose to sell the derivatives before they reach maturity.

As market expectations and prevailing market rates have increased across 2021, this has resulted in an unwinding of the losses seen in prior years, whilst some gains on more recent derivative positions have been seen. The Nottingham has no need, or intention, to sell these derivatives and therefore expects that any gains or losses unwind over the remaining lives of the derivatives.

As this volatility arises primarily due to timing differences, the Board excludes its impact from underlying performance.

CUSTOMER SATISFACTION

	2021	2020
Net promoter score	**71%**	76%

In addition to financial measures, the Board also monitors a range of customer measures designed to ensure we continue to meet our customers' needs.

Our customer satisfaction survey is central to assessing how well we are delivering customer service and is based on customers' responses to actual transactions and activity with The Nottingham. In 2021 we have maintained our industry leading levels of satisfaction, with 83% (2020: 84%) of our customers rating us as excellent, and in line with the prior year position.

The Net Promoter Score measures the percentage of customers strongly prepared to recommend The Nottingham to others, less those who are not prepared to recommend The Nottingham, which results in a net percentage of our customers who would recommend our products and services. The Nottingham's Net Promoter Score also remained strong at 71% (2020: 76%).

Our customer base continues to grow, with over 30,000 new customers welcomed to the Society during 2021 and our LISA product offering continuing to contribute significantly to our new membership. With strong customer satisfaction scores, enhanced digital platforms, a strong branch network alongside the product and service offering, we expect this growth to continue.

STRATEGIC REPORT (CONTINUED)

STATEMENT OF FINANCIAL POSITION REVIEW

There is no material difference between the Group and Society balance sheet, and therefore this section is presented on a Group basis only.

The Group balance sheet reduced by 3.3% in the year to £3.6bn following a managed performance of net interest margin and liqudity management.

MORTGAGE LENDING

	2021 £m	2020 £m
Residential	2,800.2	2,942.1
SBL	232.6	164.1
Total	**3,032.8**	**3,106.2**

Overall, total mortgage balances fell marginally by 2.4% during the year and stands at £3.0bn.

Gross new lending totalled £557m for the year compared against £493m in 2020.

Residential gross lending consisted of £429m prime residential lending (2020: £336m) and £42m to traditional buy-to-let lending both secured on high quality residential assets. Mortgage lending remaining concentrated in prime high quality mortgage assets. Residential mortgages, excluding buy-to-let, account for 68% of the total lending book.

The Secured Business Lending (SBL) book increased to £232.6m, with £86m of gross lending for the year, predominately driven by limited company BTL lending also secured on high quality residential assets.

The Society saw continued success on customer retention where we retained around two thirds of customers who reached the end of their fixed or discounted product term in the year.

Residential mortgage lending is focused equally on the less than 60% and the 60% to 80% LTV categories. Performance continues to be underpinned by the low interest rate environment and levels of House Price Inflation (HPI). The Society's average LTV decreased marginally from 53% to 50% during the year.

Geographic distribution continues to remain focused in two broad areas, our heartland of the East Midlands/Yorkshire and London/South East.

RETAIL AND WHOLESALE FUNDING

The Society funds its mortgages through a combination of retail savings and wholesale funds.

	2021 £m	2020 £m
Branch savings	2,519.8	2,506.0
Non-branch savings	355.7	288.2
Retail savings	**2,875.5**	**2,794.2**
Secured wholesale	470.3	644.5
Unsecured wholesale	24.9	40.7
Retail & Wholsale funding	**3,370.7**	**3,479.4**

The Group operates a diverse funding strategy to ensure an optimum mix and duration of retail and wholesale funding.

Retail savings continue to be the cornerstone of our funding requirement, with the remainder obtained from the secured and unsecured wholesale funding markets.

Retail savings have remained stable at £2.9bn. Branch balances remained broadly flat as the Society looked to manage liqudity levels alongside asset growth. Balances in the Beehive Money digital platform have grown from £232m to £343m in 2021. The Society opened over 21,000 new Beehive digital accounts during 2021.

The Bank of England's Term Funding Schemes (TFS & TFSME) have continued to provide the Group with access to secured funding at low rates of interest, with £343m (2020: £453m) drawn down under the schemes as at 31 December 2021. The Society drew £225m of funding down through TFSME during the year, and repaid £335m of TFS in the same period.

The Society also has £127m (2020: £191m) outstanding as at 31 December 2021 borrowed through a secured bilateral funding agreement.

The wholesale funding ratio reduced from 19.7% to 14.7% in 2021.

LIQUID ASSETS

The Society maintains a prudent level of liquid resources, of an appropriate level and quality, to meet its financial obligations as they fall due under normal and stressed conditions.

The Group's liquidity resources comprise a combination of 'on-balance sheet' liquid assets and 'off-balance sheet' liquidity held with the Bank of England secured against approved mortgage portfolios. The Group is able to exchange these assets for cash as required.

The Group's on-balance sheet liquidity is made up as follows:

	2021 £m	2020 £m
Bank of England	284.6	373.3
Multilateral Development Banks	104.7	78.6
UK Gilts & T'Bills	39.6	10.1
Mortgage backed securities	61.5	46.7
Covered Bonds	54.5	17.4
Other	17.6	66.1
Liquid assets	**562.5**	**592.2**

By holding liquid resources of the highest quality, which can be turned readily into cash, termed 'buffer' assets, the Group is able to manage the on-balance sheet liquidity it holds at a lower level. During the year, the Group continued to maintain a level well in excess of the regulatory minimum.

The Society supplements on-balance sheet liquidity with access to the Bank of England's Sterling Monetary Framework facilities supported by prepositioned collateral. When taking into account both on- and off-balance sheet liquidity, total liquid resources were 30.3% (2020: 32.5%), with prepositioned assets in addition.

The two key measures of liquidity introduced under CRD IV are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The final requirements for the NSFR have now been released, but are not yet in force. The Society is currently in excess of the minimum levels required for both measures, with the LCR at the end of year being 216% (2020: 215%).

CAPITAL

The Society continues to focus on maintaining strong capital ratios to protect members' interests.

Common Equity Tier 1 (CET1) capital is the strongest form of capital and comprises the Society's general reserves. Overall CET1 resources have increased by £9.4m in the year. This is driven by the profit for the year and other comprehensive income movements, offset by unfavourable changes in fair value reserves and a significant increase in regulatory adjustments driven by the capitalisation of intangible assets. The Society also continues to benefit from a positive IFRS 9 regulatory adjustment as at 31 December 2021, as part of government responses to the Covid-19 pandemic.

Alongside the increase in resources outlined above, there has been a 4.5% reduction in risk weighted assets, reflecting the fall in mortgage assets. This resulted in an overall increased CET1 ratio of 16.5% compared against the 2020 position of 15.0%, emphasising our capital strength.

Regulatory adjustments include deductions for intangible assets, deferred tax asset and valuation adjustments on fair value financial instruments, offset by an addback for the IFRS 9 transitional arrangements.

The leverage ratio, which is calculated as Tier 1 capital divided by total balance sheet exposure, has increased marginally to 5.6% under the transitional rules basis. This is driven by the reduction in asset exposures as well as higher capital resources.

The leverage ratio, excluding central bank deposits, would be 6.0% under the final rules basis.

The Regulator requires that the Society holds a certain amount of capital against the assets it holds. This is referred to as its Total Capital Requirement. As at 31 December 2021, the Society's Total Capital Requirement was set at 8.81% of risk weighted assets or £108.7m.

All the Society's capital ratios remained comfortably in excess of regulatory requirements throughout the year.

Further information regarding the Society's capital management can be found in the Pillar 3 report available at www.thenottingham.com.

The following tables show the composition of The Nottingham's regulatory capital as at 31 December 2021 under CRD IV final and transitional rules, and details of key ratios:

CAPITAL RESOURCES	2021 Final CRD IV £m	2020 Final CRD IV £m	2021 Transitional CRD IV £m	2020 Transitional CRD IV £m
COMMON EQUITY TIER 1 CAPITAL				
General reserves	219.2	205.5	219.2	205.5
Fair value reserves	(0.1)	-	(0.1)	-
Regulatory adjustments and deductions	(17.2)	(13.7)	(15.6)	(11.4)
TOTAL COMMON EQUITY TIER 1 CAPITAL	**201.9**	**191.8**	**203.5**	**194.1**
ADDITIONAL TIER 1 CAPITAL				
Permanent Interest Bearing Shares	-	-	2.4	4.7
TOTAL ADDITIONAL TIER 1 CAPITAL	**-**	**-**	**2.4**	**4.7**
TIER 2 CAPITAL				
Permanent Interest Bearing Shares	23.8	23.8	21.4	19.1
TOTAL TIER 2 CAPITAL	**23.8**	**23.8**	**21.4**	**19.1**
TOTAL REGULATORY CAPITAL	**225.7**	**215.6**	**227.3**	**217.9**
RISK WEIGHTED ASSETS	**1,233.5**	**1,291.7**	**1,233.5**	**1,291.7**

CAPITAL RATIOS	%	%	%	%
Common Equity Tier 1 (CET1) ratio	16.4	14.8	16.5	15.0
Total Tier 1 ratio	16.4	14.8	16.7	15.4
Total Capital ratio	18.3	16.7	18.4	16.9
Leverage ratio	5.5	5.1	5.6	5.3

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

The Nottingham is a low-risk, UK-based organisation and in common with other financial institutions, the nature of the business results in a number of unavoidable or inherent risks. These inherent risks are continuously monitored and managed by the Board, as noted in the risk management report on pages 31 to 35. They are categorised as principal risks within the risk management framework and are defined as follows:

Principal Risk Category	Definition
Strategy	The risk that The Nottingham does not have an appropriate strategy and corporate plan to deliver sustainable long-term value to members and/or fails to effectively implement and execute the strategy. This includes climate-related risks.
Capital	The risk that The Nottingham does not have sufficient capital or allocates it ineffectively. This includes The Nottingham's ability to manage its capital effectively in a range of business and economic environments.
Transformation & Change	The risk that The Nottingham is adversely affected due to the failed or ineffective implementation of change or programmes of change.
Market & Interest Rate	The risk to The Nottingham's net interest income and economic value arising from changes in market interest rates and mismatches in The Nottingham's balance sheet.
Retail Credit	The risk of loss stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.
Liquidity	The risk that The Nottingham, although solvent, does not have sufficient financial resources available to meet its obligations as they fall due.
Model Governance	The risk of having an inadequate or ineffective framework for managing model risk.
Legal, Regulatory & Conduct	**Legal:** Risks associated with the failure to meet the contractual obligations of The Nottingham resulting in financial liability or litigation and risks associated with the failure to put in place appropriate insurance policies to mitigate legal liability. **Regulatory:** Risks associated with failure of The Nottingham to comply with statutory and regulatory requirements. **Conduct:** Risks associated with failure to deliver fair outcomes for The Nottingham's customers.
Operational	The risk of loss resulting from human factors, inadequate or failed internal processes and systems or from external events. This includes operational resilience, cyber and health and safety.

The Covid-19 pandemic continues to have an impact on all of the risk categories listed above. While the effects of the pandemic have reduced during 2021, a high level of uncertainty remains. This uncertainty is reflected in the principal risks facing the Society and is discussed below, along with the controls and mitigations that have been put in place to manage the risks and minimise their impacts.

Economic uncertainties

The combined impacts of the global pandemic, Brexit and supply shortages in certain sectors continue to cause high levels of uncertainty over the future of the UK economy. The pressure on interest rates, which was predominantly downward for the first half of 2021 has now moved significantly, with an increase in the bank base rate to 0.5% in December and February and an expectation of further near-term rate rises designed to counter higher levels of UK inflation. Although recent communications from the Bank of England have indicated that they expect interest rates to remain at low levels, the timing and response of the market to potential rate rises are difficult to predict and make it very challenging to plan and forecast accurately.

The Nottingham is fortunate that, thanks to careful stewardship of its mortgage portfolio, it entered the pandemic period with historically low levels of arrears and defaults. Despite early concerns as the pandemic developed, there has been minimal impact on loan impairments to date.

The vast majority of customers who made use of the ability to defer payments under the mechanism introduced in response to the pandemic, have returned to full paying status. This is in line with much of the industry, however it is unclear how future macroeconomic developments will impact the ability of these customers to pay going forward. It is certainly possible that the number of customers in arrears will increase from the historically very low levels experienced by The Nottingham over recent years, and in keeping with the Society's purpose, members will continue to be supported.

The Nottingham has considered the credit losses that may arise from a significant shock to house prices, increased unemployment and any subsequent increase in arrears and defaults, which may arise as a result of the economic uncertainty. The Society undertakes regular stress-testing, conducts an annual Internal Capital Adequacy Assessment Process (ICAAP), regularly assesses the levels of provisions held against bad debts and sets a capital appetite requirement at a level that is designed to be more than adequate to absorb credit losses should they arise. The Society maintains a strong capital position relative to its Overall Capital Requirement (OCR).

Lending decision-making is supported by models which are constantly reviewed and overseen as part of the governance framework to ensure they remain relevant and accurate in the unprecedented macroeconomic environment. The Society is aware that many models were created at a time when the current trading environment was not envisaged thereby presenting a heightened level of model risk. The Society's model governance framework is primarily overseen by the Model Governance Committee, supported by other governance committees, with key models subject to external development and review by specialist third parties.

The Nottingham will continue to take a prudent approach both in its assessment of house prices and in its forecast of arrears levels. In response to the crisis, the level of provisions held against future mortgage defaults were significantly increased to ensure that the Society effectively manages the risk of future defaults.

The Nottingham will also continue to closely monitor all relevant economic forecasts to ensure that it incorporates emerging risks, including any presented by climate change, into its planning processes. The Nottingham's response to climate change is well progressed, with the ongoing assessment, management and oversight of climate-related risks embedded within the governance and risk framework and targets and risk appetites agreed. Further information on climate change and the Society's response to it can be found within the Sustainability report. As with other financial services organisations, work continues to evolve the strategic response to the challenge of climate change and to enhance the assessment of the impacts of climate change on the business, particularly for the lending book which is recognised as one of the most material sources of our carbon footprint and therefore the main climate-related risk for The Nottingham.

The trading environment

Mortgage trading

The Bank of England's maintenance of ultra-low interest rates has exacerbated the ongoing challenge for all building societies in balancing the needs of savers and of borrowers, while earning sufficient margin to run the Society, invest for the future, build capital reserves and remain sustainable.

The ultra-low base rate and fierce competitive pressures in the mortgage market, predominately from larger lenders with very cheap funding sources and the cost efficiencies of scale, have driven down the rates charged for mainstream mortgage lending products.

In this environment, The Nottingham's ability to significantly increase earnings in the shorter-term are likely to remain constrained for some time. In response, the Society is considering a number of initiatives that will enable it to expand its lending, within current risk appetite, whilst generating required higher returns.

Acquisition of savings balances and membership growth

In an increasingly digitised world, it is important that the Society continues to invest in its digital strategy as part of its reinvention strategy, to future proof its business against changes in customer behaviour, remain relevant to our members' needs and provide a diverse and stable funding source to support lending. Failing to do so would place at risk the Society's funding strategy and long-term sustainability. This is most relevant in the Society's savings proposition, where the Society needs to cater for members in both the branch network and the digital channel.

A significant part of The Nottingham's reinvention strategy was delivered when the Society launched its Beehive Money mobile application (app) in July 2021. The app allows the Society to mitigate the strategic proposition risk of customers moving to online channels for new savings products by significantly enhancing our existing digital offering and creates a reliable funding channel to manage and support the Society's liquidity requirements. The app also allows the Society to reach an additional cohort of customers who want to transact via an app in a digital channel, providing a route to grow the membership. The Beehive Money app also allows Lifetime ISA (LISA) customers to access online mortgage advice through our partner Mortgage Advice Bureau (MAB), which further enhances our strategic proposition to enable our members to plan, save and protect for their futures.

People risk

One of the principal impacts of the Covid-19 pandemic has been on the working environment and, in particular, on employees' expectations of post-pandemic working practices. The Society successfully focused on supporting employees through the challenges of 2020 & 2021, supporting physical and mental wellbeing and adopting a flexible approach where possible to suit employee needs.

The recruitment market has tightened considerably in the second half of 2021 and there are growing expectations from candidates (incorporating salary, benefits and working conditions) that the Society will need to align to if talent is to be secured and retained. Failure to attract and retain talent is likely to result in an increase in costs through having to pay more to attract the right candidates or to acquire interim solutions to bridge gaps in resources. Alongside this, a number of external economic conditions are resulting in additional pressure and considerations for the Society and may impact the Society's ability to recruit or retain successfully. These include pay freezes being reversed in public sector, increases to costs of living and to the minimum wage.

In response to this, the Society has instigated a trial period of a blended/hybrid approach to working, which will be formally reviewed in 2022. Initial feedback is being sought from colleagues and emerging concerns of employees around the return to office are being actively addressed and managed. In the branch network, several renovations have been undertaken in 2021 in order to provide the best possible working environment for branch colleagues, alongside enhanced experience for our members and potential members. This branch renovation programme will continue into 2022. In addition, a variety of other initiatives are being considered to ensure the Society remains an attractive local employer of choice.

A degree of uncertainty remains, however, around what impact the Covid-19 pandemic will have on working practices over the winter period and the situation is being closely monitored.

Strategic Partnerships

The Nottingham has simplified its business operations over the last two years, moving to a partner-based model for the delivery of estate agency services and expert mortgage advice. This has enabled the Society to maintain its proposition offering by partnering with specialist providers of these services. As such, the Society relies on certain key partners for the delivery of important elements of its proposition and for the generation of related fee income.

The Nottingham works closely with key partners who provide services to members on its behalf. As the Society explores new ways of meeting the needs of its members it is likely that the number of key strategic partners will increase.

The Society recognises that working with external parties requires close and continuous oversight. It is a key objective of The Nottingham that selected partners manage their relationships with members to exactly the same high standards that are applied internally. Many of the Society's partners have also been affected by the Covid-19 pandemic, both financially and operationally.

STRATEGIC REPORT (CONTINUED)

Strategic partners also support the Nottingham in other ways, providing important back-office and technology services.

The Society continues to closely manage such relationships by rigorous contractual requirements and strict service delivery standards. All partners are monitored to ensure that their services meet the Society's high standards at all times and, where applicable, ensuring that they meet defined financial adequacy requirements. Metrics on service delivery are regularly reviewed at management committees. The Nottingham is committed to ensuring that its trusted partners provide the highest level of service to members and, on the rare occasions where this doesn't happen, the Society acts in the best interests of customers to ensure good, regulatory compliant, customer outcomes are achieved.

Cyber risk

The Covid-19 pandemic has provided increased opportunities for cyber-criminals to exploit weaknesses in cyber-defences. Reported incidents of phishing and similar activities have increased across the UK as a result. The Nottingham's Information Security and Financial Crime teams have responded by launching a variety of initiatives to further raise awareness across both colleagues and customers in the methods used by cyber-criminals to gain access to information or money.

In all areas, managing cyber risk remains a key focus of the Society's management to safeguard the business and protect members' data and savings. This includes remote working solutions. The Society continues to invest in technology to prevent and detect cyber-attacks, whilst specialists maintain an awareness of prevailing threats and are able to respond proactively to events. The new Beehive Money app includes a range of enhanced security, anti-fraud and financial crime tools to provide not only a great user experience during onboarding, but also an enhanced level of security to keep our members safe and secure.

Technical expertise is complemented with education and awareness activities to ensure that employees are equipped to recognise and manage the risks associated with cyber activity. The capability to respond to and recover from cyber events is kept under continuous review including contingency planning, crisis management and disaster recovery plans.

Regulatory Change

The regulatory environment continues to develop, with a number of new initiatives coming into force in early 2022. The new regulations cover a wide range of categories and have all required significant resource to be applied to ensure that the Society remains able to meet all regulatory requirements.

The key elements of regulatory change under consideration include:

- Operational Resilience (Joint PRA/FCA);
- Material Outsourcing (PRA);
- Climate disclosures (PRA);
- Consumer Duty (FCA);
- Updated minimum capital requirements – CRR2 (PRA); and
- Strong & Simple prudential framework (PRA).

The Society actively monitors the regulatory environment to ensure that it is able to comply fully with all new and changing regulatory requirements. Horizon scanning is a key process that supports the work of the Legal, Regulatory & Conduct Risk Committee, which oversees the Society's approach to developing new processes in line with regulatory changes.

David Marlow
Chief Executive

3 March 2022

CORPORATE RESPONSIBILITY REPORT

Responsible Society

During 2021, we started looking more holistically at all the ways we, as an organisation, have an impact on our people, communities and environment. Our approach to help us focus on being a 'Responsible Society' is set out below.

People

Our ambition is to build a culture that enables every one of our team members to feel that their unique contribution is valued, that they are cared for and in a place they belong. This incorporates driving forward our diversity and inclusion 'Because You Matter' agenda.

Engagement

As we slowly eased into a post lockdown way of working, we continued to enable our head office team members to work from home, while our team members in branch continued working in their locations throughout, with additional measures in place to protect their health and wellbeing.

During May, we ran a pulse survey to gather team member thoughts on the future ways of working and the support we continue to provide. It was positive to get feedback that the majority of team members felt a sense of belonging and over two thirds rated our health & wellbeing support highly. The overwhelming majority of our head office team members also told us that they wanted to continue working in a hybrid way, with some preferring to work permanently from home.

Following this feedback, a decision was taken to trial a blended working/hybrid working arrangement from October. Our head office facilities were also revamped to create more opportunities for collaborative working. This trial period continues and a decision will be taken on the longer-term approach to our ways of working after reviewing the success of the trial period.

We also ran our annual 'Your Voice Matters' engagement survey in partnership with People Insight during September/October and were pleased to see that our engagement score remained above the financial services sector benchmark. For the first time, we also added an inclusion measure, to get feedback on whether team members felt they belonged and were valued, and received positive feedback on this measure. In furtherance of our Responsible Society agenda, completion of our survey led to 4,600 trees being planted through People Insight and their partner Eden Reforestation Projects.

Organisational alignment

On 30 July, we successfully completed the sale of Nottingham Mortgage Services (NMS) to Brook Financial, who are the appointed representative of Mortgage Advice Bureau. Our key priority was to ensure that there were roles for all team members affected, either with Brook Financial or within other areas of the Society. We were successful in this aim and there were no compulsory job losses as a result of the sale. The majority of impacted employees continue to work for NMS under the ownership of Brook, and the remaining seven team members were successfully redeployed into alternative roles within the Society.

Talent Development & Acquisition

Like many organisations in this past year, we have focussed on reviewing and improving our working practices to best support the post pandemic workforce. Like many, we have had to develop our practices by moving to a virtual world for engaging, onboarding and developing talent.

The labour market has been a challenge, with the increased number of vacancies across the market impacting all employers. This has meant there has been increased focus on talent retention and in response, we increased our focus on retention strategies and supporting people managers to develop ways to retain and develop their teams.

Our recruitment processes have continued to evolve to ensure we are engaging effectively with potential and current employees. Due to the success of the flexible recruitment and onboarding processes implemented during the pandemic, we've continued to accommodate virtual/remote interviews, virtual ID verification, remote new starter training and additional wellbeing calls to new employees.

As we've entered our reinvention phase, it has been an exciting and challenging time to join us. Our Employee Value Proposition (EVP) has been a key focus area for 2021 and by using insight and data to understand the key drivers of different talent populations, we've segmented our proposition and elevated specific areas to help us retain top performers but to also remain attractive to external talent.

Our EVP focus areas are:

- Taking the 'inside outside' by sharing stories of why our people are proud and motivated to work here, connecting across a suite of different channels to reach the right audience;
- Showcasing our commitment to being greener and how we play our part to fight against climate change by making sure the Society is environmentally sustainable;
- Ensuring that we have right tools, technology and processes in place for a seamless employee experience – develop a candidate experience that will attract the right talent and will elevate The Nottingham as an employer of choice;
- Sharing our compelling stories of how we have worked to make a meaningful impact to the lives of our employees e.g. flexible and hybrid working models; and
- Sharing how we have helped our people make a difference in their community.

By encompassing the central reasons that people are proud and motivated to go to work, such as our inspiring vision or distinctive culture, we can use this in our attraction strategy and ensure that we are bringing the right things to life in our onboarding.

CORPORATE RESPONSIBILITY REPORT (CONTINUED)

We have adjusted our existing development practices to ensure we could continue to provide the same level of development to our team members. This has been achieved by moving all development on to virtual platforms and enhancing our offering to support a digital learning framework. To further expand our digital learning capabilities and enhance our learning administration process, we implemented an updated learning management system in October 2021. With these adjustments we are proud to say we have fulfilled our obligation to maintain regulatory and behavioural competence and development. In the last year, we have maintained high levels of competence across all our regulated schemes.

In November, we designed and delivered our 'Trusted Advisor' programme to relevant cohorts in our network teams. This three-day programme has been designed to highlight the importance of getting to know our members and to better understand their circumstances to then help them plan, protect and save in the right way.

We have continued to invest in the development of our leaders focusing on wellbeing and development of leadership skills that are needed in the new world of work. In November, we celebrated International Leadership Week (ILW) in which we launched our Leadership Hub to be our central leadership and management development site. During ILW, we introduced our bite-size Live Leadership Lessons and launched our monthly leadership podcast, both of which we will continue in 2022.

We have continued with our layered leadership development programme, which supports early future leaders through middle management and onto functional heads. Sponsored through talent and succession forums, we have several high potential employees, progressing through these channels.

Our first time leaders programme 'Aspire' has enabled a number of delegates to embark on a 12-month programme, leveraging our leaders as teachers. We have also launched an 'Aspire for the Network' this year, giving customer services consultants the opportunity to embark on a development programme tailored to future branch manager positions, with some members of the group going on to secure these roles internally. 70% of those who graduated from the 2020 Aspire pilot are now working in roles with more complexity and supervisory accountability. We have exported all modular learning onto a virtual platform to recognise accessibility challenges across the organisation.

We have another number of delegates working towards their Level 3 and 5 accreditations endorsed by the Chartered Institute of Leadership and Management.

We continue to grow the coaching culture through the Society by expanding the scope of our 'Coaching with Impact' programme to more managers across all functions.

Equality, Diversity & Inclusion

A key priority is to enable a more inclusive culture and this year we introduced a Diversity & Inclusion awareness and education programme for all levels, including the Board. We are also ensuring that inclusion and diversity remains at the forefront of succession planning and recruitment at Board and Executive team level.

We have remained proud signatories of the Women in Finance Charter since its inception in 2016. We initially set a target of 30% gender diversity and increased this to 35% in 2019. While we exceeded our target each year until 2020, this dipped to 33% in 2021. We are disappointed that we have not met our target, as a result of turnover in senior leadership and reorganisation, but, as stated in our annual Charter submission, we have all the actions in place to address this in the medium and longer-term.

We've also focused on expanding our network of mental health first aiders (MHFAs) and achieved our target of having 5% of the Society trained as MHFAs by the end of 2021.

We've continued to focus on team member wellbeing with a range of initiatives from our monthly 'Your Health Matters' e-edition to our recent partnership with Menopause in the Workplace.

We've also considered financial wellbeing for our team members, with the provision of our Covid-19 Financial Support Fund, set up in February 2021. We recognised that, whilst we did not access the furlough scheme, team members may be experiencing financial impacts or difficulties as a result of the pandemic. Our Financial Support Fund gives team members financial support to get back on track; this is linked to our mutual ethos of helping people save, plan and protect their future. Financial support is provided in the form of grants of up to £1,000 per employee and is open to all employees, regardless of length of service or income. A number of applications were received throughout the year and all went through our panel process for review; all applications received to date met the required criteria and have been approved. We have also recently partnered up with StepChange debt charity to provide our team members with debt advice, information and support.

Doing the right thing for our communities in 2021

As the effects and ramifications of the pandemic continued to impact so many members of the community in 2021, our mutual ethos meant we were once again well-placed to do what was right to not only support our people and members, but also our wider communities. We made over £100,000 in charitable donations in 2020 and we set out in 2021 aiming to at least match this and help our communities thrive. We achieved this with donations totalling over £200,000.

We know that at a national level young people have been disproportionately affected by the pandemic. In addition to the changing and uncertain employment landscape, there has also been a significant mental health impact on this specific age group. Therefore, we put our time and resource into trying to help young people by supporting projects that inspire their futures and help them achieve their potential.

As well as donations, we wanted to support charities and causes with gifts in kind, encouraging our team to use their two paid days volunteering and creating a number of opportunities for them to do this throughout the year. Almost 1,000 hours of our colleague's time was given in 2021 by individuals and teams wanting to make a difference. A key highlight of this was the significant uptake in team members training to be mental health first aiders, who will not only support their colleagues across the business but also people across their personal networks who need it most.

Career Academy

Employability has long been a strand of our community activity, but in 2021 we accelerated our focus and worked with a number of partners to reach as many young people as possible with content and guidance that will inspire their career ambitions and give them a glimpse into the multitude of journeys available to them. Reaching your full potential starts with being inspired and motivated and over the last 18 months we have worked with several community partners to do just this.

We joined forces with Everfi to create a flagship employability programme based on our Career Academy platform that produced a scalable learning solution targeted at teachers, that connects classroom education to the real world of work and focuses on opening new doors of opportunity for all. A catalogue of online, downloadable, resources was made available to hundreds of young people in 12 schools and higher education settings across the country. The rollout to more schools has now begun and it is our aim that in the future these resources can be used in face-to-face, interactive workshops in schools up and down the country.

Other Career Academy partnerships in 2021 included a £30,000 donation to Think Forward that enabled them to introduce their Ready for Work (R4W) Passport app that allows post-16s to evidence work-readiness in areas such as preparing a CV, interview practice, opening a bank account, volunteering experience and demonstrating email and telephone skills.

In a world that is increasingly becoming 'digital-first', we recognise that not all young people have access to devices and data so we partnered with Framework's 'Level-up' campaign to help drive awareness and funds to those young people that need it most.

With up to 80% of 18 – 24-year-olds reporting loneliness in 2021, Career Academy also partnered with Nottingham-based youth charity, The Wolfpack Project, on the #FindYourFuture campaign to engage young people up to the age of 35. The campaign reached more than 70,000 people digitally focusing on key elements including physical and mental wellbeing, financial wellbeing and employability.

The Samuel Fox Foundation

In 2021 we were delighted to launch our very own charitable foundation in partnership with Nottinghamshire Community Foundation. Named after our founder and keen philanthropist, Samuel Fox, the foundation will use fundraising and donations to continue Samuel Fox's legacy of giving back, raising people up and trying to build a more responsible society.

In addition to supporting the communities, which surround the Society's branch network, the foundation will seek to invest in causes and projects that help young people fulfil their potential and inspire their futures.

The first award from the foundation was made in November to Stonebridge City Farm to support its ongoing volunteering programme. Providing a safe and nurturing place to explore work skills and develop confidence, the farm caters for up to 140 volunteers a week, many of whom have a learning disability, to gain valuable skills and experience. Located less than a mile from our head office and Fox's former home, the charity is valued highly within the local community – not only as a free-to-visit inner-city visitor attraction, but also as a place to grow individually as a volunteer.

In December, the foundation made over 20 donations totalling £10,000 to local charities nominated by colleagues from across our branch network that were identified as doing great work for communities across our heartland. Charities ranged from local food banks to youth centres and ensured that hundreds of people were supported over the festive period and beyond.

Beehive

A really exciting business milestone in 2021 was launching our first mobile application (app) with Beehive Money. This gave us an opportunity to diversify our corporate social responsibility (CSR) strategy a little and, in support of our brand namesake, we decided an environmental cause would be the best place to start. The plight of bees and their environmental importance to the ecosystem and biodiversity is well-publicised so, starting small, we decided to support the UK's bee population by sponsoring our own hives and wildflower meadows. Working with beekeeping experts, Bee1, we created four brand new colonies, homing 200,000 bees, at a purpose-built apiary in Wales. And, as Beehive Money grows, so will the beehives and natural environments we create and support, with sustainability targets to help us along the way. Just another way we're helping build a brighter future with Beehive Money. There's much more we can do here, and this is a really positive first step for us in this area.

Environment

We're acutely aware of the importance of minimising our impact on the environment and becoming a more sustainable society. We have engaged with our longstanding energy partner, Inspired Energy, to develop our carbon balance sheet. We are working to understand the impact of that data to help us to formulate our plans and detailed targets to move The Nottingham forward.

We are committed to ensuring that as a business we meet the government deadline of 2050 to achieve Net Zero and will be working hard to understand how we may be able to improve against this milestone.

Our initial focus for 2022 will be to reduce by 10% our Scope 1 and 2 emissions (that is those emissions generated by our internal operations and the energy we buy). We will continue to consider more detailed targets for Scope 1 and 2 to achieve Carbon Neutrality and Net Zero.

The vast majority of our Scope 3 emissions are driven by our mortgage book and we are working to understand the impact of our lending in more detail in order to develop an achievable plan of action to reduce the impact on emissions of the built environment, which is held by individuals who we support with mortgage loans.

In terms of immediate action to support our drive to be a 'greener' business we have rolled out a recycling programme across our branches and at head office to improve our waste management. We have continued to work hard with our main contractors as part of our refurbishment work in branches and at head office to minimise waste and targeted zero to landfill during 2021. Additionally, all of our key suppliers are committed to sharing and improving their sustainability credentials to improve performance still further going forward.

We have continued to roll out LED lighting for all branch refurbishments, head office changes and as part of any planned maintenance recommendations. By the end of 2021, we will have 12 branches and head office all with LED lighting.

We're continuing to make a positive environmental impact through key partnerships such as Bee 1, which is helping to introduce around 200,000 honeybees pollinating close to 800 million plants and crops.

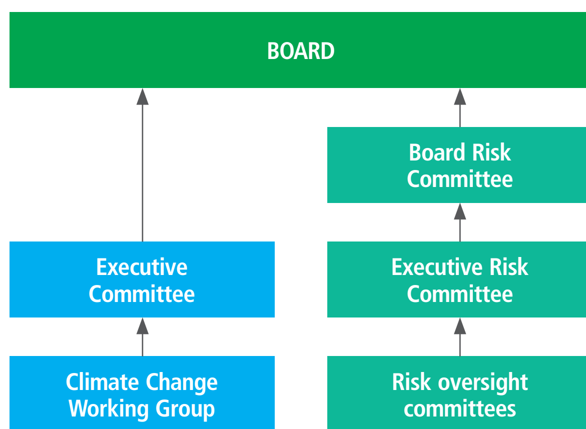
We manage sustainability through our own Climate Change Forum ensuring that our approach is effectively managed in terms of agreed actions and risk. We have also embedded sustainability as a key workstream of our Responsible Society strategy. The Sustainability report on page 22 provides the Society's climate change disclosures in line with the Task Force on Climate-Related Financial Disclosures (TCFD) requirements. This provides further details on targets, risk management and the carbon balance sheet of the Society.

SUSTAINABILITY REPORT

The Financial Stability Board created the Task Force on Climate-Related Financial Disclosures (TCFD) to improve and increase consistent reporting of climate-related financial information. The following sustainability report therefore presents the Society's climate-related disclosures under the TCFD requirements. As a regulated financial services organisation, the Society is required to publish these disclosures for the first time in 2021.

Governance

The Nottingham's Board is ultimately accountable for all climate change related matters. The Executive Committee is responsible for deriving the Society's strategic response to climate change. The Board Risk Committee and the Executive Risk Committee are responsible for oversight of climate-related risks. All committees are supported by the Climate Change Working Group which provides a central point of collation and focus for all climate-related activities at the Society, including inputs from The Nottingham's Responsible Society strategic initiative.



The Climate Change Working Group is chaired by the Chief Executive, who leads the Society's response to climate change. The working group is attended by Executive team and Leadership team members from across the business. It meets monthly to co-ordinate activities.

Risk oversight committees include the Asset & Liabilities Committee, Retail Credit Committee, Operational Risk & Resilience Committee, Model Governance Committee, Legal, Regulatory & Conduct Committee and Reinvention Committee. These committees have primary responsibility for identifying, managing, and reporting of climate-related and other risks.

The Executive Risk Committee is chaired by the Chief Risk Officer & General Counsel. It meets monthly and reviews risk dashboards for all principal risk categories. On a quarterly basis, risk dashboards are presented to the Board Risk Committee. Climate change is presented within the risk dashboard for strategy risk.

The Board have been fully engaged with the Society's response to climate change. During 2021, a number of sessions have been held with the Board, including educational teach-ins, the presentation of the approach to governance and oversight and the risk assessment outputs.

The Nottingham operates a three lines of defence model for risk management, in common with many financial sector firms. Responsibility for identifying, managing and reporting risks, including climate-related risks, resides with the first line of defence. The second line of defence is responsible for providing challenge and oversight over the first line and for climate-related risks; this includes independent assessment of the completeness of the risk assessment, check and challenge of how the risks are being assessed and modelled and oversight of the reporting of them to ensure it remains comprehensive. The third line of defence is responsible for providing independent assurance and assessment of the impacts of climate-related risks.

In addition, The Nottingham has a number of policies and procedures in place, which defined the Society's approach to climate change and ensure that activities are performed consistently and in accordance with the Board's stated objectives and goals.

Strategy

Throughout 2021 we have been working hard to better understand the Society's impact on our climate through a range of lenses recognised by global experts and known as Scope 1,2 and Scope 3 Upstream and Downstream – The Greenhouse gas (GHG) Protocol.

- **Scope 1**: direct emissions from owned or controlled sources;
- **Scope 2**: indirect emissions from purchased energy; and
- **Scope 3**: other indirect emissions that occur in an entity's value chain.

We have calculated our current carbon footprint to be the emission of circa 53,000 tonnes of CO_2. Over 95% of our current carbon footprint is related to carbon emissions from our mortgaged properties (Scope 3 downstream). Therefore, our efforts to reduce those emissions will need to be undertaken in direct association with our borrowers who own those properties over a number of years. We are however committing to be Net Carbon Zero before 2050, in line with the Government's stated objective.

In the short-term we are putting strong focus on reducing our Scope 1 and 2 emissions over which we have more direct control. In 2022 we are seeking to reduce our Scope 1 and 2 emissions by a total of 10%. Also, during 2022 we will agree and establish targets to achieve Carbon Neutral status for both Scope 1 and 2 emissions. We also plan to set a target for Net Carbon Zero status for Scope 1 and 2.

In the meantime, we will also continue to develop our understanding and risk assessment that ongoing climate change poses to our business assets, the risks to our business model and to our members – particularly to their homes as a consequence of increasingly unpredictable weather patterns. We will also continue to fully meet our regulatory obligations in this area.

Climate Change Scenario Analysis

The Nottingham assesses climate change risk across two main categories. Physical risk considers the impact of physical effects of climate change or weather-related events such as flooding. Transitional risk assesses the transition to a low-carbon and climate resilient future such as changes in policy and regulation.

In order to ensure strategic decisions are informed appropriately, a range of scenario analysis is performed in relation to climate change. These include the impact of flooding across the mortgage portfolio as well as transitional risks of an increase in minimum Energy Performance Certificate (EPC) ratings and the potential costs this could incur.

Analysis is considered across three potential lens', in line with the Climate Biennial Exploratory Scenario (CBES) published in 2021. These include:

- **Early Policy Action**: Transition to net zero starts early with global warming limited to 2 degrees;
- **Late Policy Action**: Policy delayed until 2031 and is more sudden and disorderly. Global warming limited to 2 degrees; and
- **No Policy Action**: Mitigation is either absent or unsuccessful and global warming increases to 3 degrees.

Outputs of the scenario analysis are used to inform the ICAAP assessment and are also considered across the risk categories in The Nottingham's risk management framework.

Risk Management

Identification

The Nottingham recognises that climate change is far reaching across its business and in order to capture of the material touchpoints, climate change is embedded within the Society's enterprise-wide risk management framework. Alongside the scenario analysis, The Nottingham recognises that climate change risks manifest across a broad range of risk categories.

The Nottingham has nine principal risk categories and climate change risk is included within the Society's strategy risk principal risk category. This provides an elevated and centralised view of climate-related risks, which is informed by the Society's other principal risk categories via formal assessment at risk oversight committees.

An initial risk assessment of climate-related risks has been conducted, which comprised of two elements; a high level, top-down assessment by the Climate Change Working Group and a detailed, bottom-up analysis conducted through the risk oversight committees. Within this, both physical and transitional risks have been identified, assessed, and assigned owners and all material risks are being managed, monitored, and reported in accordance with The Nottingham's risk management framework.

The risks have been scored using the established impact and likelihood scale to facilitate a consistent approach to viewing the materiality of the risks within the risk hierarchy. The concept of proximity of the risks over near, medium and long-term time horizons has been introduced, to account for the extended time periods over which climate risks need to be viewed. The management techniques identified for the climate-related risks are also consistent with those in the risk management framework, consisting of mitigation, transfer, avoidance, monitoring and acceptance. The application of the approved risk management framework to all risks, including those related to climate change, has resulted in a consistent approach to risk being taken across the Society's risk landscape.

The Nottingham recognises that the identification, measurement and forecasting of climate-related risks present unique challenges, not least because of the longer-term nature of the risks, the uncertainty around when and how they will manifest and challenges around accessing reliable data and modelling it effectively, all of which are common, to a lesser or greater extent, to organisations. The Nottingham's approach to climate change and the effective management of associated risks will inevitably evolve, as internal and external understanding and approaches develop.

The most material climate-related risks identified are as follows:

- **Credit risk** and the impact of climate change on The Nottingham's existing and future lending books from both a physical and transitional risk perspective.
- **Operational risks**, including impacts on how The Nottingham and its third parties and strategic partners operate and conduct business.
- **Legal, Regulatory & Conduct risks** arising from the need to comply with challenge laws and regulations and the impacts of them on our business operations.

As the most material risks, these will form the focus of The Nottingham's response to climate change risk management in the short-term.

Management and Integration

The risk assessment has informed the Society's risk appetite statement for climate change risk, which has been approved by the Board and is reported upon as part of the regular risk reporting monthly to the Executive Risk Committee and quarterly to the Board Risk Committee. The risk appetite statement states that The Nottingham has a low-risk appetite for not meeting the statutory requirements of climate change and our own stated climate change related goals.

A number of metrics have been developed, which support the risk appetite. These have been informed by several factors, including scenario analysis.

In addition to the formal assessment of risk dashboards by risk oversight committees (at least quarterly), climate-related risks are also assessed as part of the half-year forecast and corporate planning processes, to ensure that the current assessment of climate-related risks and strategic objectives are aligned and activities co-ordinated. The risk assessments performed via risk oversight committees at half and full year points are presented to the Executive Risk Committee and the Board Risk Committee as part of the strategic and corporate planning cycle.

SUSTAINABILITY REPORT (CONTINUED)

Metrics and Targets

Carbon Footprint

We have engaged with Inspired Energy, our longstanding energy management partner, to support us in developing our carbon strategy.

Deliverables as a direct result of our work with Inspired are as follows:

- Understand our ambitions;
- Completion of site surveys to understand our current emissions and opportunities for reduction;
- Development of carbon reduction targets;
- Definition and development of our carbon reduction strategy; and
- Annual review of our performance against targets.

Whilst our core objective will be to ensure that the business meets the Government's Net Zero target date of 2050, we will be seeking to understand our pathway and whether we can deliver ahead of that date. The current targets are outlined in the Strategy section.

Key to that understanding has been the establishment of our carbon balance sheet, which details our emissions against Scope 1,2 and 3. This is based upon 2020 as the baseline and compared against 2021 in order to monitor trends and performance against targets.

Our internal data has been married with government approved BEIS greenhouse gas emission conversion factors for calculating carbon emissions for a range of activities and processes.

Results of the initial data analysis show that over 99% of our emissions relate to Scope 3 which covers indirect emission sources. Within our Scope 3 emissions over 90% are in relation to the carbon generated by the mortgages that we have granted. Given that the carbon figures associated are partly based upon BEIS conversion data, we have commissioned some additional work to understand the actual EPC status of our portfolio, which in turn will support the development of a targeted plan to support our members.

In the short-term we have some opportunities to address our Scope 1 and 2 emissions and this will be a focus in 2022 in terms of both striving for a 10% reduction in our overall energy usage and the development of detailed targets to get us to Carbon Neutral and Net Zero.

Details of the data included in our carbon balance sheet are shown in the table below:

Carbon Emission Data

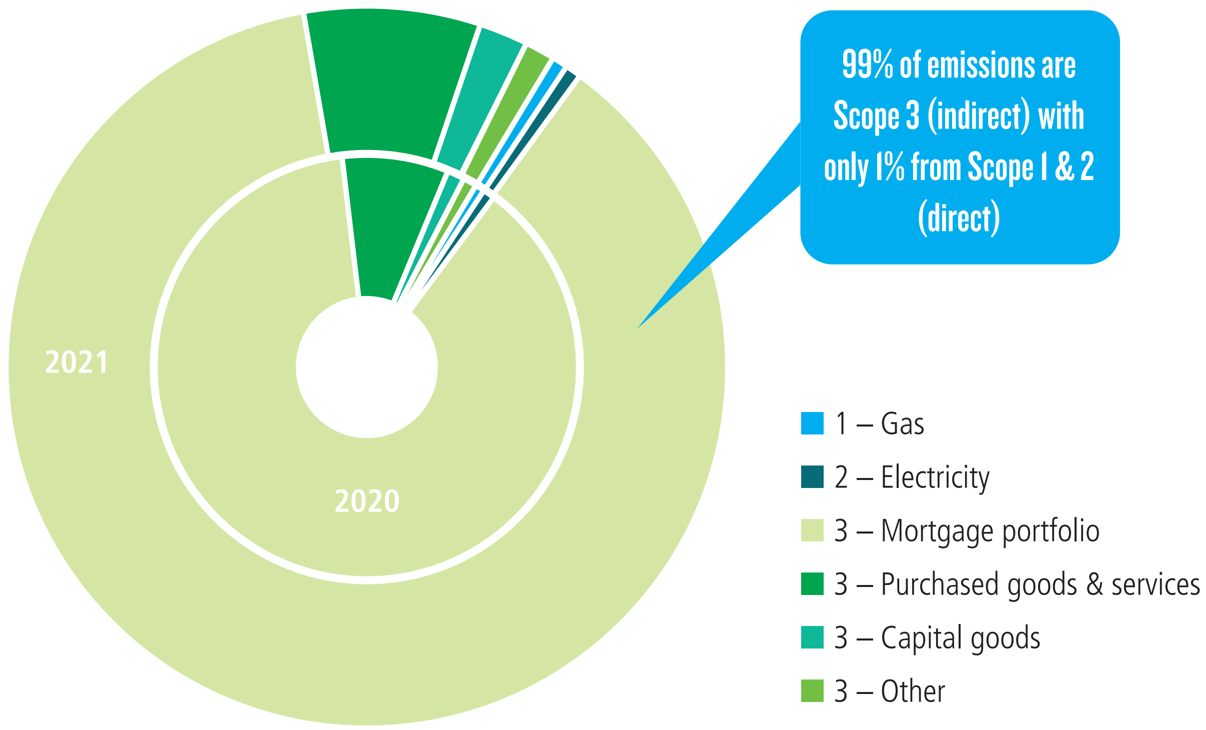
C02 in tonnes	2021		2020 (Baseline)	
Scope 1 emissions[1] Direct emissions from owned or controlled sources				
Gas	54		61	
Travel	-		-	
Scope 2 emissions[2] Indirect emissions from purchased energy				
Electricity	370		484	
TOTAL DIRECTLY ATTRIBUTABLE EMISSIONS	**424**	**1%**	**545**	**1%**
Scope 3 emissions Other indirect emissions that occur in an entity's value chain				
Investments (mortgage portfolio)[3]	47,198		47,215	
Purchased Goods and Services	4,240		4,374	
Capital Goods	1,192		695	
Other[4]	693		538	
TOTAL INDIRECT EMISSIONS	**53,323**	**99%**	**52,822**	**99%**
TOTAL EMISSIONS	**53,747**		**53,367**	

[1] Scope 1 emissions exclude grey fleet emissions as these have been included within Scope 3.

[2] Scope 2 emissions are presented here on a Location Based approach, presenting the average carbon intensity of the local electricity grids.

[3] Scope 3 indirect emissions associated with the Society's mortgage portfolio have been calculated by estimating energy usage and resultant emissions at mortgaged properties and these have been allocated to the Society, based on its proportional share of the investment property.

[4] Other includes the impacts of business travel (including grey fleet), employee comuting and leased assets.



Physical Risk Metrics

A key metric of physical risk is the potential flood risk of the lending portfolio. This is assessed based on publicly available data published by the Environment Agency. The data below categories the mortgage exposures by annual flood probability at 31 December 2021.

		Balance by annual flood probability	
		Total £m	%
High	(>3.3%)	13.2	0.4
Medium	(1.1%-3.3%)	48.8	1.6
Low	(0.1%-1.1%)	99.8	3.3
Very Low	(<0.1%)	33.5	1.1
Negligible	(<<0.1%)	2,700.7	89.1
Unable to categorise	N/A	136.8	4.5
TOTAL		**3,032.8**	**100**

Transitional Risk Metrics

As part of understanding transition risks, The Nottingham's lending portfolio has been broken down by EPC rating. This will also allow the Society to work closely with its members in order to help manage any impact as potential policy and regulatory changes occur. The table below reflects current EPC ratings taken from the England and Wales EPC register across the Residential and BTL portfolios.

Energy Performance Certificate Data as at 31 December 2021		
	Number	Exposure £m
EPC Rating A-C	5,785	887.8
EPC Rating D-E	9,869	1,361.6
EPC Rating below E	542	78.5
No EPC available	4,602	472.3
Total	**20,798**	**2,800.2**

Energy Performance Certificate (EPC) data provides an understanding of the energy efficiency of properties, with an A rating denoting the most energy efficient. This information also informs the Society's scenario analysis for transitional risks.

YOUR BOARD OF DIRECTORS

Non-Executive Directors

Andrew Neden

Chairman

Andrew joined the Board in 2014. He is a Chartered Accountant with over 35 years' experience in financial services in the UK and overseas. After a number of years running KPMG's UK financial sector transaction services team, he was the global Chief Operating Officer for KPMG's financial services business. Current directorships include the Wesleyan Assurance Society and ABC International Bank plc; he chairs the Audit committee for both organisations. He also chairs Aetna Insurance Company Ltd and a couple of small charities.

Kerry Spooner

Senior Independent Director

Kerry joined the Board in September 2016. Kerry had 10 years of financial services experience in the building society sector before joining the Board. She acted as a Non-Executive Director at two other building societies and has experience as Vice Chair, Senior Independent Director, Chair of Remuneration Committee and Chair of Nomination Committee. Prior to that Kerry worked as a solicitor for 20 years, the last nine years as a corporate finance partner of the international law firm Allen & Overy LLP. Kerry is also a Non-Executive Director of Scotiabank Europe plc and a non-executive member of the Remuneration Committee of ANZ Banking Group UK Branch.

Simon Baum

Simon joined the Board in June 2018. Simon has spent over 35 years specialising in risk management within the financial services arena, holding several senior positions at Experian, Alliance & Leicester and Santander, both within the UK and overseas. His previous roles include Director of Mortgage Risk at Santander.

Michael Brierley

Mike joined the Board in July 2020 and has over 35 years' experience in Chief Financial Officer (CFO) roles within the financial services industry, most recently as CFO of Metro Bank plc where he helped lead the challenger bank from start up to listing from 2009 to 2018. He spent seven years at Capital One Europe based in Nottingham as CFO Europe, CFO UK and Chief Risk Officer Europe. He has also worked as CFO for Royal Trust Bank, Financial Controller at Industrial Bank of Japan, London Branch, CFO of Gentra Limited and Director Business Risk at Barclaycard. He is currently a Non-Executive Director at Admiral Group and chairs Admiral Financial Services Limited. Mike joined the Rose Theatre Trust as Trustee and Director in September 2021. Mike is a Fellow of the Institute of Chartered Accountants in England and Wales. Mike is stepping down from the Board in 2022 and is not seeking re-election.

Simon Linares

Simon joined the Board in 2019. Simon is also an Executive Mentor and Coach and Chairman of the charity Dreams Come True. He brings a wealth of commercial and people and development experience spanning a range of sectors, including FMCG, telecommunications and financial services. His most recent position was Group HR Director at Direct Line, where he led the HR, communications, public affairs and corporate social responsibility strategies. Prior to Direct Line, Simon headed up human resources for O2 Europe, Telefonica's digital businesses and Diageo, covering different geographies and cultures, including Africa, Spain and Portugal. Simon is a fellow of the Chartered Institute of Personnel Development and in 2018 was ranked amongst the top five most influential HR Practitioners in the UK.

Peter O'Donnell

Peter joined the Board in January 2021. Peter has over 30 years' experience in financial services and worked in a variety of senior finance roles at Prudential, RSA and Aviva. His most recent position was Executive Vice President at Unum, a Fortune 500 company where he was also CEO of its UK business and Chairman of Unum Poland. Since 2016, Peter has been a Trustee and Chair of Audit Committee for Cardiac Risk in the Young. Peter has a Bachelor of Commerce Degree from University College Dublin, is a fellow of CIMA and has significant experience of both international and the UK markets.

Non-Executive Director

Kavita Patel

Kavita joined the Board at the beginning of 2017. She is a partner and Head of Investment Funds at the law firm, Shakespeare Martineau. Kavita has a wealth of experience advising clients in the financial services arena both in the retail and institutional space on corporate, regulatory and governance matters.

Executive Director

David Marlow

Chief Executive

David joined the Board in 2006 and became Chief Executive in 2011. He has over 30 years' experience drawn from a number of senior roles in the financial services industry. Before joining The Nottingham, David held a number of senior posts in retail banking at Alliance & Leicester Plc, including Director of Current Accounts & Savings and Managing Director Alliance & Leicester Direct. David represents building societies on the FCA's Small Business Practitioners Panel and has previously held the posts of Deputy Chair of the Building Societies Association (BSA) and Chair of The Midlands and West Regional Association of the BSA. He is stepping down from his role and as a Director in 2022 and is not seeking re-election.

GOVERNANCE

Changes to the Board in the year to 31 December 2021

Peter O'Donnell was appointed to the Board as a Non-Executive Director on 1 January 2021.

Board Committees

Risk

Simon Baum (Chair)
Michael Brierley
Simon Linares
Andrew Neden
Peter O'Donnell
Kavita Patel
Kerry Spooner

Audit

Michael Brierley (Chair)
Peter O'Donnell
Kavita Patel
Kerry Spooner

Nominations

Andrew Neden (Chair)
David Marlow
Kerry Spooner

Remuneration

Kerry Spooner (Chair)
Simon Linares
Andrew Neden
Kavita Patel

DIRECTORS' REPORT

The Directors' report should be read in conjunction with the Chairman's statement, Chief Executive's review and Strategic report on pages 4 to 18.

Business objectives and activities

The Nottingham is a strong and successful mutual building society, which builds upon its strong regional foundations, and has a track record of serving members for over 170 years. At The Nottingham we aim to serve the needs of our members, offering a safe and secure place for their savings, helping them own their own home and supporting them through the complex challenges they face in planning for the future.

Information on the Group's business objectives and activities are provided in the Strategic report on pages 9 to 18.

Business review, future developments and key performance indicators

The Group's business activities and future plans are reviewed in the Strategic report section of the Annual Report and Accounts on pages 9 to 18. Additionally within the Strategic report, we comment upon the financial (and other) key performance indicators used by the Board during the year to assist its control, direction and drive for business results.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are outlined on page 16 to 18, and our approach to managing these risks can be found in the Risk management report on pages 31 to 35.

Financial risk management objectives and policies

As a result of its normal business activities, the Group is exposed to a variety of risks, including credit, market and liquidity risk. The Group's objective is to minimise the impact of these risks, as well as financial risk, upon its performance. The risk management report on pages 31 to 35 considers this in detail. A further explanation of the financial risks and the controls in place to manage them (including the use of derivatives), is given in note 31 to the Annual Report and Accounts.

Results

Group reported profit before tax for the year was £15.1 million (2020: loss of £8.4 million). The Group profit after tax for the year transferred to general reserves was £12.6 million (2020: loss of £7.2 million). As at 31 December 2021, total Group reserves and equity were £219.1 million (2020: £206.3 million).

Capital

Group gross capital as at 31 December 2021 was £243.1 million, (2020: £230.5 million) being 7.21% (2020: 6.62%) of total shares and borrowings. Free capital, as at the same date, amounted to £213.4 million (2020: £203.6 million) and 6.33% (2020: 5.85%) of total shares and borrowings.

The annual business statement on page 116 gives the explanation of these ratios. The Board remains committed to maintaining a strong capital position.

Loans and advances

During 2021, total lending was £557 million (2020: £493 million) and the average advance being £170,921 (2020: £159,250), and the average debt at the end of the year being £133,504 (2020: £132,276). As at 31 December 2021, there were six cases (2020: seven cases) of properties being 12 or more months in arrears or in possession. The total amount of balances outstanding in those cases was £770,954, with arrears of £113,237.

No mortgage losses were realised during the year. Provisions for potential mortgage losses total £3.1 million (0.10% of mortgage balances).

The Group offers a number of different forbearance options to customers including reduced payment concessions, payment plans, capitalisations and mortgage term extensions. During 2021, the Society has also continued to offer customers payment deferrals as part of the Government-led scheme to respond to the Covid-19 situation. As at 31 December 2021, the Group had 105 loans (2020: 125) subject to some form of forbearance. There are no customers remaining with a payment deferral in place (2020: 161 loans). Note 31 to the Annual Report and Accounts on pages 102 and 104 provides further details.

Property, plant and equipment

Freehold premises owned by the Group are shown in the Annual Report and Accounts at cost less depreciation. An estimate of the value of those properties, prepared in late 2021 by the Group's professional services team, indicates that market value is £2.9 million (2020: £2.4 million) higher than book value. During the year, three of the Society's freehold properties were sold with a total gain on sale of £0.4m recognised in the financial statements.

Supplier payment policy

The Group is committed to deal responsibly with suppliers. The policy is that payment will be made 30 days from the receipt of the invoice, provided that the supplier has complied with all relevant terms and conditions. Variation of the 30 day policy can be agreed at the time an order is placed.

As at 31 December 2021, the total amount owed to suppliers was equivalent to 6 days' credit (2020: 20 days).

Charitable and political donations

During the year, the Group made charitable donations of £209,000 (2020: £125,000). No contributions were made for political purposes.

Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions within scope of the Capital Requirements Directive (CRD IV).

The nature of the activities of the Society are set out under business objectives of this report and for each of the Society's subsidiaries in note 16 to the Annual Report and Accounts. All of the activities of the Society and its subsidiaries are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax shown in the Income Statement as well as employee figures disclosed in note 7, are related to the United Kingdom. The Society and its subsidiaries have not received any public subsidies.

Environment and sustainability

The environmental policy is set out in the Corporate responsibility report on page 19. The Sustainability report on page 22 outlines the Society's position in line with the requirements of the Financial Stability Board's Taskforce on Climate-related Disclosures (TCFD).

Our people

As a Responsible Society, our ambition is to create and maintain an environment where our people can be at their best, work together to deliver the Society's strategic goals and feel valued and rewarded for their unique contribution. This incorporates driving forward our Diversity & Inclusion agenda, focusing on the wellbeing of our team members and seeking out feedback on a regular basis.

As with many organisations, the pandemic transformed our ways of working: head office teams continue working from home as we trial blended working and meetings and training sessions are regularly held virtually. We have also upgraded our head office to facilitate collaborative working.

As we strive towards having a more inclusive culture, we have embarked on delivering a diversity and inclusion education programme pilot, which runs into 2022, after which this will be rolled out to all team members.

We are keen to seek out the views of our team members and ran both a pulse survey and annual Your Voice Matters engagement survey during the year. This year, our engagement score was 80% and while marginally lower than last year's results, remains above our benchmark and our 2019 feedback. We were pleased to receive positive feedback on our Inclusion index, a new measure introduced to the survey, in furtherance of our Diversity & Inclusion agenda. We also continue to engage with our Colleague Council, at which Board and Executive team level members attend on a quarterly basis.

We expanded on our network of trained mental health first aiders this year and have continued to focus on team member wellbeing with a range of initiatives such as our partnership with Menopause in the Workplace, and Wellbeing Month. We also focused on the financial wellbeing of team members with the provision of our Covid-19 Financial Support Fund and partnership with StepChange debt charity.

As outlined in the Corporate responsibility report on pages 19 to 21, we are proud to continue with our community support, a tradition that started with the work of our founder, Samuel Fox.

Directors' responsibilities in respect of the annual report, the annual business statement, the directors' report and the annual accounts

The Directors are responsible for preparing the annual report, annual business statement, directors' report and the annual accounts in accordance with applicable law and regulations. The Building Societies Act 1986 ('the Act') requires the Directors to prepare Group and Society annual accounts for each financial year. Under that law they are required to prepare the Group annual accounts in accordance with UK adopted international accounting standards (IAS) and applicable law and have elected to prepare the Society annual accounts on the same basis.

The Group and Society annual accounts are required by law and UK adopted IAS to present fairly the financial position and the performance of the Group and the Society; the Act provides in relation to such annual accounts that references in the relevant part of that Act to annual accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society annual accounts, the Directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Polices, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with UK adopted IAS and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under UK adopted IAS; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an annual business statement and a directors' report, each containing prescribed information relating to the business of the Group.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and Society, in accordance with the Act; and
- 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 the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

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

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

The Directors who held office at the date of approval of this Directors' report confirm that, so far as each of them is aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information and to establish that the Group's auditor is aware of that information.

DIRECTORS' REPORT (CONTINUED)

Directors' statement pursuant to the disclosures and transparency rules

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware:

- the annual accounts, prepared in accordance with UK adopted IAS, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- the management report contained in the Chairman's statement and Chief Executive's review includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' statement pursuant to the UK Corporate Governance Code

As required by the UK Corporate Governance Code, the Directors confirm their opinion that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the performance, strategy and business model of the Society. Details of the governance procedures which have been implemented to support this can be found in the Board Audit Committee report on page 40.

Going concern and viability

Going concern

In preparing the annual accounts the Directors must satisfy themselves that it is reasonable to adopt the going concern basis.

The Directors have considered the risks and uncertainties discussed on pages 16 to 18 and 31 to 35, and the extent to which they might affect the preparation of the Annual Report and Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the ongoing uncertainties created by Covid-19 and climate-related considerations.

The Group's business activities and future plans are reviewed in the Chairman's statement and Chief Executive's review on pages 4 to 8. In addition, note 31 to the Annual Report and Accounts includes the Group's policies and processes for managing financial instrument risk such as liquidity risk, interest rate risk and credit risk.

As with many other financial institutions, the Group meets its day-to-day liquidity requirements through prudent management of its retail and wholesale funding sources. It ensures it maintains sufficient liquidity to meet both normal business demands and those that may arise in stressed circumstances. The Society has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period.

Furthermore the Group's forecasts and plans, taking account of current and possible future operating conditions, including stress tests and scenario analysis, which have considered income, expenses and overall quality of the mortgage portfolio, indicate that the Group has sufficient operating liquidity and capital for the foreseeable future, and specifically for the going concern assessment period to 31 March 2023 – twelve months from the date of the approval of the Annual Report & Accounts.

As such, the Directors are satisfied that the Group has adequate resources to continue in business and to use the going concern basis in preparing the accounts.

Viability statement

In accordance with the 2018 revision of the UK Corporate Governance Code, the Board has also assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The Board has conducted this review for a period of four years. This is shorter than the planning horizon used for corporate planning but considered appropriate given the level of uncertainty and variability increases towards the outer years.

The corporate plan considers the Group's profitability, cash flows, liquidity and capital requirements as well as other key financial ratios over the period. These ratios are subject to sensitivity analysis and stress testing, which involves varying a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this stress testing is carried out to evaluate the potential impact of the Group's principal risks, outlined on pages 16 to 18 of the Strategic report and the Risk management report on page 31, actually occurring. This includes the associated risks as a result of the ongoing Covid-19 pandemic situation as well as the consideration of climate-related risks. Based on the reviews completed, the Board considers that the Society is viable over the medium-term.

Directors

The names of the Directors of the Society who served during the year and up to the date of signing the accounts, their roles and membership of Board committees are detailed in the governance section on pages 26 to 27. Other business interests are shown in the annual business statement. None of the Directors have any beneficial interest in, or any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society, as at 31 December 2021.

In accordance with the agreement made by the Board and in line with the rules for re-election outlined on page 37, all Directors who wish to continue in role will stand for re-election at the next Annual General Meeting. The regulatory approval for Susan Hayes was received on 1 March 2022 and she will join the Board this month. She will then stand for election at the Annual General Meeting in April 2022.

Auditor

A resolution to reappoint Ernst & Young LLP as auditors of the Society will be proposed at the Annual General Meeting.

On behalf of the Board,

Andrew Neden
Chairman

3 March 2022

RISK MANAGEMENT REPORT

For the year ended 31 December 2021

The Nottingham recognises risk as a natural consequence of its business activities and environment. It endeavours, through positive risk strategies, to manage these in a manner that ensures delivery of its strategic objectives and business plan, whilst protecting members' interests and its financial resources.

The Board is responsible for ensuring that an effective framework is in place to promote and embed a risk-aware culture that identifies, appropriately mitigates and manages the risks the Group and Society face in the course of delivering its strategic objectives. This includes both current risks and those associated with the implementation of future strategy.

The Board reviews and approves its Board Risk Policy annually.

In pursuing its strategy, the Board ensures there are appropriate capabilities and resources available, along with sufficient capital strength to succeed. This includes focusing on risk and reward to ensure both remain at an acceptable level.

In order to streamline the risk management process, in April 2021 the Board approved and implemented a simplified committee structure which reduced the number of governance committees enabling focused oversight with clear lines of responsibility and alignment to responsibilities allocated under the Senior Managers & Certification Regime (SMCR).

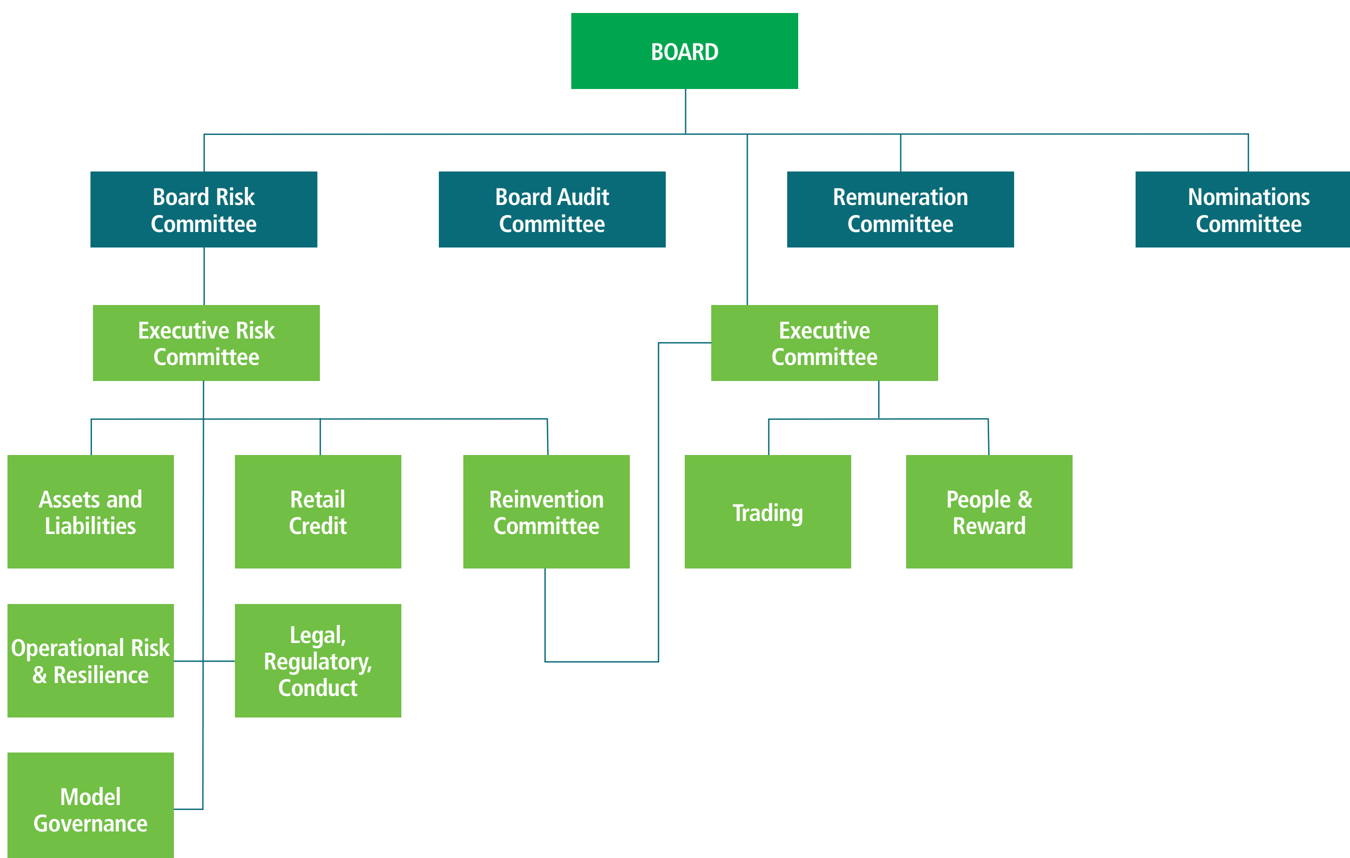
The Board Risk Framework

The Board Risk Committee is an integral part of the Group's formal structure, assisting the Board in overseeing all aspects of risk management. It regularly reviews and approves policy statements, risk appetite statements, and management committee terms of reference. It receives summary management information and minutes from the individual management committees.

The risk management framework is based on the three lines of defence model (described on page 38) and focuses on:

- clear accountability and ownership;
- defined roles and responsibilities;
- the identification of business objectives;
- identification of the risks arising from these objectives;
- an assessment of the identified risks and controls using the Board approved risk framework;
- assessing the effectiveness of the documented controls;
- the effective monitoring of the risks and controls on an ongoing basis; and
- reporting risks to the relevant committees.

Day-to-day risk management is the responsibility of the Executive Risk Committee (see below), which oversees the Society's risk committees, as detailed in the diagram below.



GOVERNANCE

RISK MANAGEMENT REPORT (CONTINUED)

Board Risk Committee

As detailed on page 27, the membership of the Board Risk Committee comprises all non-executive directors. It is responsible for ensuring:

- key risks are identified and appropriate steps taken by management to mitigate them;
- new and emerging risks are identified and reviewed through the horizon-scanning process;
- due consideration is given to all significant matters relating to governance, control, regulatory and compliance issues;
- adequate capital and liquidity are maintained to address the Group's key risk exposures, both to ensure regulatory compliance and to support the achievement of strategic goals;
- all conduct risks are properly considered, again to ensure regulatory compliance and the achievement of fair and proper outcomes for all our members;
- The Nottingham has considered the risks to operational resiliency and mitigated them to within approved tolerances;
- the climate-related financial risks have been appropriately identified, managed and mitigated; and
- the effective monitoring of the Group's key risks and controls.

The Board Risk Committee meets at least four times per year to review risk management activities and consolidated management information regarding existing and emerging areas of risk.

The scope of the Board Risk Committee extends to all types of risk faced by the Group with the management of certain risks delegated to the Executive Risk Committee, Executive Committee and relevant management committees. The responsibilities of these committees are described below.

Executive Committee

The Executive Committee is responsible for acting on behalf of the Board in formulating strategy, the business plan and for organising the Society's assets and resources to deliver value to members in a fair and appropriate manner.

The Committee is chaired by the Chief Executive and comprises all Executive team members.

Strategic risk

When discussing future strategy, the Committee and ultimately the Board takes care to ensure that risks such as system enhancements, long-term funding approaches, acquisitions and changes in the external economy are evaluated and that plans are in place to effect any required risk mitigation. The Executive Committee oversees the detailed evaluation and monitoring of these risks.

The Committee also oversees the management of risks relating to changes in the external environment, which have the potential to affect the Group's business model either through the level of demand for products and services and/or its ability to meet that demand. In particular, from 2021 the Executive Committee has taken responsibility for formulating The Nottingham's strategic response to climate change.

The Committee looks to mitigate this exposure through regular review of its Group corporate plan, ensuring activities remain within risk appetites.

Executive Risk Committee

The Executive Risk Committee is responsible for acting on behalf of the Board and the Board Risk Committee in the management and oversight of The Nottingham's principal risks. It reviews relevant policies to ensure that the Society acts in such a way as to organise, manage and protect the Society's assets to deliver value to members through the provision of savings and mortgages, whilst remaining within law, regulation and agreed Board risk appetites.

The Committee enables the Board Risk Committee to fulfil its role by ensuring that:

- there is executive level oversight of the risk management framework;
- the accountability and responsibility for managing risk is clearly defined;
- the risk culture of the Society is defined and embedded;
- the nature and extent of the top risks of The Nottingham are determined and understood, including the nine risk categories and any thematic risks;
- appropriate risk appetites are defined and documented;
- The Nottingham, at all times, operates within stated risk appetites;
- processes are in place to consistently identify, measure, assess, monitor and control risks;
- the risk event process is effectively capturing and reporting on operational failures;
- the horizon scanning process is identifying emerging risks and regulatory themes;
- The Nottingham is compliant with regulatory requirements, including the ICAAP and ILAAP process;
- The Nottingham maintains an up to date and adequate Recovery & Resolution Plan which fully reflects the requirements of the Board and regulators;
- Conduct related risks are appropriately identified, managed and reported up to Board Risk Committee; and
- The Nottingham has identified climate-related risks and has embedded them within its risk management framework, to facilitate effective mitigation and oversight.

The Committee is provided with regular updates on the principal risk categories by first line management.

To ensure the effective monitoring and reporting of risk, The Nottingham maintains a number of risk registers, including a Group risk register, functional risk registers and project risk registers. These risk registers help management assess the probability and impact of the risks identified, and the effectiveness of mitigating controls.

The Committee is chaired by the Chief Risk Officer & General Counsel and includes all Executive Directors, certain members of the Executive Committee and other senior colleagues.

Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is responsible for overseeing The Nottingham's liquidity risk, market and interest rate risk, wholesale credit risk and its capital sustainability risk. In addition, ALCO reviews treasury activity for compliance with approved treasury policies and procedures. The Committee is chaired by the Chief Financial Officer and the membership is made up of relevant senior managers.

Market and interest rate risk

The Society defines market and interest rate risk as the risk to net interest income and economic value arising from changes in market interest rates and mismatches in the Society's balance sheet. Economic value is the present value of the Society's future cash flows.

The economy continues to be dominated by low interest rates and an uncertain economic environment, to an extent driven by the ongoing Covid-19 pandemic and the impacts of Brexit.. The Society actively monitors its position against its interest risk appetite to mitigate the impact that any future change to interest rates might have in adversely affecting the Society's interest margin.

The Society's limits for the management of market and interest rate risk are documented in the Market and Interest Rate Risk Policy, which is developed, defined and recommended by ALCO and considered and approved ultimately by the Board.

Basis risk, which arises from changes in the relationship between different types of interest rates, is included within this risk category as a subset of interest rate risk.

The Treasury Risk team measures the levels of basis risk inherent in the Society's balance sheet, as well as subjecting the balance sheet to monthly stress tests designed to measure the likely impact of a sudden change in interest rates. This is assessed and monitored against the Board approved risk appetite.

The Treasury team is responsible for day-to-day management of the Society's interest rate and basis risk exposures within the approved risk appetites. Typically interest rate risk is managed by taking advantage of natural hedging opportunities within our balance sheet or through the use of appropriate hedging instruments.

ALCO is responsible for reviewing Treasury activity, performance and compliance with the approved policy and risk appetites.

Liquidity risk

The Society defines liquidity risk as the risk that the Society, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. This risk is managed through holding cash and other high quality liquid assets and maintaining wholesale funding facilities.

ALCO develops, defines and recommends the liquidity risk appetite, which is considered and approved by the Board and documented in the Liquidity Risk Policy. The liquidity risk appetite helps to ensure that the management of the liquidity portfolio by the Treasury team supports the corporate plan.

The liquidity policy sets the framework for the day-to-day activities of the Treasury team to ensure that all liquidity management activities are conducted within approved risk appetites. The Society maintains a diverse funding base and ensures compliance with applicable regulatory requirements. Defined control limits determine the overall level of liquidity to be maintained. The base level and composition of the Society's liquidity is subject to PRA guidance and regular stress testing and is also documented as part of its Internal Liquidity Adequacy Assessment Process (ILAAP), as required by the PRA.

The Society is required to be compliant with the Liquidity Coverage Ratio (LCR), which measures the amount of high quality liquid assets relative to modelled net stressed cash outflows within a 30 day period.

The Society also maintains a funding profile in line with a longer term funding measure, the Net Stable Funding Ratio (NSFR), which requires financial institutions to hold sufficient stable funding to cover the duration of their long term assets.

Based on our current and forecast liquidity positions, the liquidity portfolio held by the Society comfortably exceeds the minimum requirements of the LCR. Similarly, the funding profile exceeds the future requirements under the NSFR.

The Society has documented a Recovery and Resolution Plan, which describes those metrics that would indicate an emerging market-wide or Society-specific stress event. The Plan includes a range of options available to the Society should such a stress event crystalise in order to ensure adequate levels of liquidity and capital are maintained.

Regular stress testing is performed to confirm that the Society's available liquidity is adequate, within risk appetite and is sufficient to support extreme levels of net cash outflows.

Responsibility for the day-to-day operational management of liquidity risk lies with the Society's Treasurer, with operational oversight provided by the Treasury Risk team and reported to ALCO. A detailed analysis of the Society's liquidity profile can be found in note 31 to the annual accounts.

Wholesale credit risk

Wholesale credit risk arises from counterparties who may be unable to repay loans and other financial instruments that the Society holds as part of its liquidity portfolio.

The Society's risk of counterparty default is relatively low due to the high proportion of total liquidity held in UK Sovereign debt securities and the Bank of England reserve account. The composition of the treasury loans can be found on page 98.

The Society's liquidity policy sets out the amounts, products and counterparties under which Treasury liquid assets can be held. Credit worthiness of counterparties is assessed using a number of factors including minimum acceptable credit ratings approved by the Board Risk Committee, together with lending limits. The policy also allows for investments in multi-lateral development banks, and also in covered bonds and residential mortgage backed securities (RMBS), subject to criteria set by the Board Risk Committee. The Board does not permit any lending directly to sovereign states, other than the UK Government, and all lending is in sterling.

The Board, via the approved policy, further restricts the level of risk by placing limits on the amount of exposure that can be taken in relation to one counterparty or group of counterparties, and to industry sectors and geographical regions.

The Society's Treasury team has day-to-day responsibility for operating within Board approved credit limits. Monitoring and oversight, including assessment of counterparty credit worthiness, is undertaken by the Treasury Risk team to ensure all exposures remain within risk appetite. This information is shared with ALCO.

Capital sustainability risk

The Nottingham conducts timely evaluations of its capital adequacy and financial resources to determine the level of capital required to support current and future risks contained within its strategic plan. This process, which is a regulatory requirement, is known as the Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP assesses The Nottingham's future capital requirements by considering changes to business volumes, the type and mix of assets, and business activities within the context of current and future anticipated risks and stress scenarios. The ICAAP also incorporates the Capital Requirement Directive IV (CRD IV) requirements.

The PRA uses the ICAAP during its Supervisory Review and Evaluation Process (SREP) through which it determines the amount of capital it requires The Nottingham to hold against its Total Capital Requirement (TCR).

The Board monitors the current and future level of capital held by the Society in relation to its TCR on a regular basis. The Society's current and future capital levels remain well in excess of the PRA requirements. An analysis of the components of The Nottingham's current capital position can be found in the Strategic report on page 15.

Retail Credit Committee

The Retail Credit Committee is comprised of relevant senior managers and chaired by the Chief Financial Officer. It is responsible for oversight of the Society's retail credit risks, which includes exposures to residential and buy-to-let (BTL) mortgages, limited company buy-to-let mortgages and Secured Business Loans (SBL).

Retail credit risk

The Society defines retail credit risk as the risk that a financial loss arises from the failure of a customer to meet their contractual obligations. As a building society, this is most likely to arise through the inability of borrowers to repay a mortgage. The Society's exposure to retail credit risk is limited to the provision of loans secured on property within England and Wales.

A Retail Credit Risk Policy (incorporating the credit risk appetites) is developed and proposed by the Retail Credit Committee, reviewed by Executive Risk Committee and considered and approved by the Board Risk Committee. The Society manages the level of credit risk it undertakes by applying various control disciplines, the objectives of which are to maintain asset quality in line with approved risk appetite. The Board receives monthly information on key risk appetite limits.

Exposure to retail credit risk is carefully monitored by the Retail Credit Committee. Day-to-day retail credit risk is managed through the application of prudent lending policies, which are aligned to the stated risk appetites. This ongoing monitoring provides assurance that current and future exposures, such as LTV levels, geographic concentration and probability of default, are managed within the risk appetite limits set by both the Board and regulators.

The Society remains committed to promoting home ownership and its risk appetite allows lending to first time buyers, but it restricts the overall level of high loan-to-value lending to ensure the risk is managed sufficiently. Similarly, the Society continues to follow our long-term policy of also offering interest-only products to a small number of borrowers, which are covered by strict policies and monitoring procedures.

The Society regularly stress tests the mortgage portfolio to detect any signs of potential payment stress or sensitivity for our borrowers to the impact of future rate rises. The mortgage portfolio shows resilience to the impact of rate rises, but the Society ensures adequate monitoring and analysis is in place to detect any signs of potential deterioration. In light of recent regulatory developments, the Society has also designed a stress testing framework for the potential effects of climate change on property values. This will be an area of increased focus in future years for the Society, the wider sector and the regulators.

All mortgage loan applications are reviewed by an individual underwriter supported by the use of application scorecards. Credit reference bureau data is obtained on all applications, which in turn supports our responsible lending requirements. The Society also shares account performance data with the selected bureaux. The Society's lending has become increasingly geographically diversified throughout England and Wales over the last few years with no one area dominating the portfolio.

The Society continues to be a responsible lender and its approach to lending is based on making sure that customers can afford to meet their mortgage repayments from the outset, through the use of a prudent affordability calculator, as well as our manual underwriting processes. Should customers find themselves in financial difficulty, the Society responds with appropriate forbearance and collections activities to ensure fair customer outcomes and to outcomes. It also supports customers who experience temporary financial difficulties by providing the assistance they require to enable them to regularise their financial arrangements. Only as a matter of last resort does the Society seek to take the property into possession.

The Society is committed to providing support to those members who are experiencing difficulties in meeting their mortgage payments due to the impacts of the Covid-19 pandemic. We will continue to treat all customers fairly and to offer appropriate forbearance activities throughout the pandemic and beyond.

Residential, BTL and SBL loans are granted only against the 'bricks and mortar' value (i.e. loans are provided only for the purchase or re-mortgaging of a property and not for working capital or machinery etc). An SBL policy is used to manage levels of business lending risk with loans manually underwritten. To ensure appropriate management of lending risk, the Society maintains watch lists to monitor those loans that are a possible cause for concern in order that risk mitigating action can be taken as appropriate. Primarily, SBL loans are made available to Small and Medium-sized Enterprises (SMEs) for either owner-occupied or investment property purposes. The regulatory limit for SBL lending is set at 10% and the Society was comfortably within this limit, at 7% as at 31 December 2021.

The Society does not have any exposure to the sub-prime mortgage market, does not purchase loans from other organisations, lends only to 'prime' customers and has never written 'self-certified' lending business.

Model Governance Committee

The Model Governance Committee (MGC) assists the Executive Risk Committee in the oversight of computer-based models and End User Computing (EUC) applications that are used throughout The Nottingham's strategic and operational activities. A model is defined as "a quantitative method (including the complex manipulations of expert judgements) or system that applies theories to process input data into quantitative estimates, repeatedly used for decision making".

The Committee, which is made up of relevant senior managers and is chaired by the Chief Risk Officer & General Counsel, oversees the management of risks related to models to ensure that models are included within the Society's governance framework, and are robustly designed, developed, documented and reviewed.

The Committee provides oversight ensuring that models and EUC applications are managed in line with the Model Governance Risk Policy, both on an ongoing basis and during model development. It ensures that models and EUC applications are compliant with applicable regulation and remain fit for purpose.

Legal, Regulatory & Conduct Risk Committee

The Society, being a provider of mortgage, savings and insurance products, is regulated by both the FCA and the PRA.

The Legal, Regulatory & Conduct Risk Committee (LRC) is responsible for overseeing how The Nottingham conducts its business, ensuring that all customer-impacting activities are conducted in a clear, transparent and fair manner, delivering fair outcomes for customers.

The Committee is chaired by the Head of Compliance & DPO, supported by relevant senior managers.

Each business area is responsible for ensuring that all regulatory and statutory requirements are complied with on a day-to-day basis. Formal oversight is provided by the Legal and Regulatory team through a programme of compliance monitoring.

The Nottingham has a very low appetite for breaches of regulation or for any activity that may lead to an unfair outcome for our customers.

Accordingly, The Nottingham carefully chooses the products and services it is willing to offer to its customers and ensures the appropriate level of expertise exists in the organisation to ensure good customer outcomes, compliant sales processes and clear oversight of third party providers.

The Committee is supported by the Conduct Regulation Working Group, which has responsibility for overseeing matters relating to the launch, administration and ongoing review of the products and services offered by The Nottingham.

Operational Risk and Resilience Committee

The Operational Risk and Resilience Committee (ORRC) is responsible for actively overseeing the management of operational risk across The Nottingham. It is also responsible for ensuring that the Society maintains sufficient operational resilience to ensure the ongoing delivery of key services to customers. During 2021, the Committee has continued to consider the pressures arising from the Covid-19 pandemic and the steps the Society has taken to ensure it safely meets its members' requirements.

The Committee is chaired by the Chief Customer Officer supported by relevant senior managers.

In order to allow the Committee to focus on the key elements of operational risk (which includes 'people risk' in respect of our own colleagues and 'third party risk' in respect of reliance on third parties and partners to deliver key elements of our proposition and our operational resiliency framework), the Committee meets monthly, but with a different focus in each of the three months of the calendar quarter. Any given quarter therefore features the following meetings:

- A formal quarterly ORRC meeting, covering the full range of operational risks including review and approval of the operational risk dashboard and oversight of operational resilience.
- A health & safety risk focused meeting, largely focused on matters relating to the management of health and safety risks.
- An information risk focused meeting, largely focused on matters relating to the management of information security, information management and technology risks, as well as providing specialist oversight of the Society's defences against cyber-attack.

The Nottingham defines operational risk as the risk of loss resulting from human factors, inadequate or failed internal processes and systems, or from external events. Operational risk exists in every aspect of The Nottingham's business activities. Proactive management of operational risk is essential in helping The Nottingham achieve both short-term operational objectives and longer-term strategic goals.

To ensure that The Nottingham's services are operationally resilient, the Committee is also responsible for ensuring that processes are in place to prevent, adapt, respond to, recover and learn from operational disruptions. The Committee oversees the process by which the Society identifies its important business services, understands and remediates any potential weaknesses in the supporting processes, ensures that appropriate business continuity plans are in place and verifies that third party suppliers are able to meet our customers' needs at all times.

One of the key processes that support the effective identification and management of operational risk is the risk event process, which provides a mechanism for operational incidents to be reported, their impacts assessed, remediation to be performed and root cause analysis to be undertaken, thereby reducing the risk of recurrence.

The Committee also continues to work on developing and embedding the Society's approach to operational resilience, in response to the Regulator's increased focus in this area.

Reinvention Committee

The Reinvention Committee is responsible for the oversight and management of the Transformation and Change risk category; for which it reports to Executive Risk Committee. It is also responsible for ensuring that transformation and change activity supports the effective delivery of the Society's strategy. In this second role, the Committee reports to Executive Committee. The Reinvention Committee acts on behalf of the Executive Committee and Executive Risk Committee monitoring delivery execution and operational tolerance impact of transformational, large and small business change for the Society through the effective control of a portfolio of change activity. The Reinvention Committee is informed by the Group corporate plan and specifically owns the Development Route Map and Project Expenditure Plan on behalf of the Executive Committee, ensuring effective delivery, balancing risk and benefit in the achievement of the Society's strategy.

The Nottingham's change activity is underpinned by the project risk management framework, which champions clear responsibilities, regular and transparent status reporting and a high level of oversight and scrutiny by members of the Executive team and the Board. All significant projects must be approved by the Executive Committee and the Board.

Risk Oversight

The risk management framework is supported by a series of control documents and risk reporting and is overseen by both the second and third lines of defence working through the Committee structure detailed above and undertaking independent oversight and assurance activity on key areas of risk for the Society.

This framework enables the Board and senior management to maintain effective supervision of the level of risk within The Nottingham and to ensure that appropriate controls and mitigating activities are in place.

On behalf of the Board,

Simon Baum
Chair of the Board Risk Committee

3 March 2022

CORPORATE GOVERNANCE REPORT

Nottingham Building Society is committed to best practice in corporate governance and has considered the requirements of the UK Corporate Governance Code.

The Board has reviewed the Society's corporate governance practices against the revised UK Corporate Governance Code (July 2018) (the 'Code'), which is intended to apply to listed companies, to the extent that it is relevant to a building society. In the interest of transparency, each building society is encouraged to explain in its Annual Report and Accounts whether, and to what extent, it adheres to the Code. The Board is committed to complying with best practice in corporate governance.

This report sets out how the Board has operated in 2021 and complied with the provisions of the Code and specifies where the Society is not compliant with the Code, which the Board has identified as being in the following area:

The Code requires that there is alignment between pension contributions for the Executive Directors with those of the workforce. This has been considered by the Remuneration Committee and it has been agreed that the pension arrangements for any future executive director would be reviewed for alignment with those of all employees.

Leadership

The Board

As at 31 December 2021, the Board consisted of seven Non-Executive Directors (including the Chairman) and one Executive Director, providing a complementary balance of skills and expertise.

The Board held ten meetings, one strategy review meeting and one business planning meetings during 2021. In addition, the Non-Executive Directors meet regularly, without the Executive Directors present, and consider all aspects of Board responsibilities, governance and performance.

In line with Code principles, the Board operates effectively and is collectively responsible for the long-term success of the Group and ensuring that the necessary resources are in place for the Group to meet this objective. It has a schedule of reserved matters and its principal function is to focus on how it has considered and addressed the opportunities and risks to the future success of the Group, and the sustainability of the Group's business model and how its governance contributes to the delivery of its strategy. Additionally, it ensures the appropriate financial and business systems and controls are in place to safeguard members' interests, maintain effective corporate governance and measure business performance. All Executive and Non-Executive Directors are able to obtain independent professional advice, at the Society's expense, should that be necessary in the fulfilment of their duties, and have access to the services and advice of both the Chief Risk Officer & General Counsel and the Company Secretary.

Division of responsibilities

The roles of the Chairman of the Board and the Chief Executive are held by different people and are distinct in their purpose, with division of responsibility set out in writing.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group, as well as for the formation of its strategy.

The Chairman

The Chairman, who is elected by the Board annually, leads the Board in approving its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

Non-Executive Directors

Independent Non-Executive Directors play a vital role in challenging and helping develop strategy for The Nottingham, whilst providing independent judgement, knowledge and experience.

The Board considers all Non-Executive Directors to be independent in character and judgement and free of any relationship or circumstances that could interfere with the exercise of their independent judgement.

One of the independent Non-Executive Directors is appointed as the Senior Independent Director, to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors, as necessary. The Senior Independent Director is identified on page 26.

Effectiveness

Composition of the Board

The names of the Directors together with brief biographical details are set out on pages 26 and 27.

The Board uses four committees (Risk, Nominations, Remuneration, and Audit) to help it discharge its duties. The terms of reference for these committees are reviewed annually.

The four committees meet regularly and current membership of these committees is shown on page 27.

The table below shows the attendance of each Director at the relevant Board and Board committee meetings. The number to the left is the number of meetings actually attended; the number to the right is the number of meetings the Director was eligible to attend during 2021.

Director	Board	Risk	Nominations	Remuneration	Audit
S Baum	10/10	6/6	-	-	-
M Brierley	10/10	6/6	-	-	5/5
S Linares	10/10	6/6	-	4/4	-
D Marlow	10/10	-	4/4	-	-
A Neden	10/10	6/6	3/4	4/4	-
P O'Donnell	10/10	6/6	-	-	4/4
K Patel	10/10	6/6	-	4/4	5/5
K Spooner	10/10	6/6	4/4	4/4	5/5

The minutes of committee meetings are reviewed by the Board. The Board also receives reports from the chair of each of the committees and recommendations arising. The terms of reference for these four committees are available on the Society's website.

In addition to the four Board committees identified above, the Board has the Executive Committee and Executive Risk Committees to support the Board in managing the day-to-day operations of the Group. The Executive and Executive Risk Committees meet at least once a month and the membership of both committees is made up of both Executive Directors and senior leaders. Together, both committees are responsible for acting on behalf of the Board in organising, managing and protecting the Society's assets to deliver value to members, whilst ensuring the Society operates within the law, regulation and clear, agreed Board risk appetites. Together they are therefore responsible for ensuring the management and delivery of four key areas on behalf of the Board: Strategy, Risk Management, Business Planning, and Operational Oversight. The Risk Management Report on page 31 covers these committees in further detail.

Appointments to the Board

The Nominations Committee assists the Board by making timely recommendations on the Board and executive succession plan, Board recruitment and composition and other relevant matters. The Committee considers annually the competence and suitability of those directors seeking election or re-election at each annual general meeting.

The Committee meets at least twice a year. Additional meetings may be convened if necessary.

Appointments to the Board are made on merit and against objective criteria balancing skills, experience, independence and knowledge on the Board. The Society gives consideration to diversity in respect of gender and other measures, both at Board level and in recruitment throughout the business; however it is not thought to be in the interests of the business to set measurable objectives in this regard. Candidates for both executive and non-executive directorships are recommended by the Nominations Committee to the Board for approval, with the assistance of external consultants.

All directors must meet the requirements of the Senior Managers and Certification Regime prescribed by the Financial Conduct Authority and Prudential Regulation Authority including, where appropriate, receiving regulatory approval.

Commitment

Prior to appointment, non-executive directors are required to disclose their other significant commitments. Before appointment, non-executive directors undertake that they will have sufficient time to meet what is expected of them, recognising the need for availability in the event of crises. In addition, throughout their tenure with the Society, directors are required to inform the Board in advance of any other positions they wish to take up so the time commitment and any potential conflicts of interest can be considered.

Development

Upon appointment, new directors receive a formal and tailored induction and throughout their tenure all directors receive timely and appropriate training to enable them to properly fulfil their roles. The information and training requirements of all directors are reviewed annually.

Information and support

The Chairman ensures that all directors receive accurate, timely and clear information.

The Society has in place appropriate insurance cover in respect of the directors.

Evaluation

Executive directors are evaluated using the performance management framework for all employees. The Chief Executive is appraised by the Chairman. The performance of the Non-Executive Directors is reviewed annually by the Chairman. The Senior Independent Director conducts interviews with each Director in order to appraise the performance of the Chairman, the results of which are discussed with the Chairman.

The Board and each of the committees formally evaluate their own performance and effectiveness each year. These evaluations take into consideration the balance of skills, experience, independence and knowledge, and consider the diversity of the Group and its ability to work together. The process is co-ordinated by the Senior Independent Director and the outcome of each evaluation is presented to the Nominations Committee who assesses the results for trends and themes. This process also includes an overall assessment of the performance reviews undertaken by the key management committees, which report to the various board committees. The overall outcome of the review is then reported to the Board. The Code requires the Board to conduct an external evaluation every three years. The last review was performed in 2019. The Board will keep under review and consider the Code requirement to conduct an external evaluation every three years.

Re-election

In 2022, all Directors will submit themselves for election at the annual general meeting (the AGM) in accordance with the Code.

Non-Executive Directors can serve up to a maximum of three three-year terms. Any extension must be approved annually, subject to rigorous review, and be explained giving due consideration to the continuing independence and objectivity of the Non-Executive Director.

The Nominations Committee makes recommendations for the Board concerning the re-appointment of any non-executive director at the conclusion of their specified term of office, having due regard to their performance and ability to continue to contribute to the Board in light of knowledge, skills and experience required.

Accountability and audit

Financial and business reporting

The Directors' report on pages 28 to 30 details the responsibilities of the directors in preparing the Group's accounts.

This includes ensuring suitable accounting policies are followed, that a true and fair view of the Group's financial position is given and that the Group's business is a going concern.

The Board has responsibility to present a fair, balanced and understandable assessment of the Group's performance and financial position, business model and strategy, consideration of which is contained within the Chief Executive's review on pages 6 to 8, the Strategic report on pages 9 to 18 and within the report and accounts taken as a whole.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Viability statement

In accordance with the requirements of the Code, the Board has assessed the prospects of the Society over a period longer than the 12 months required by the going concern provision. The viability statement is considered on page 30 within the Directors' report.

Risk management and internal control

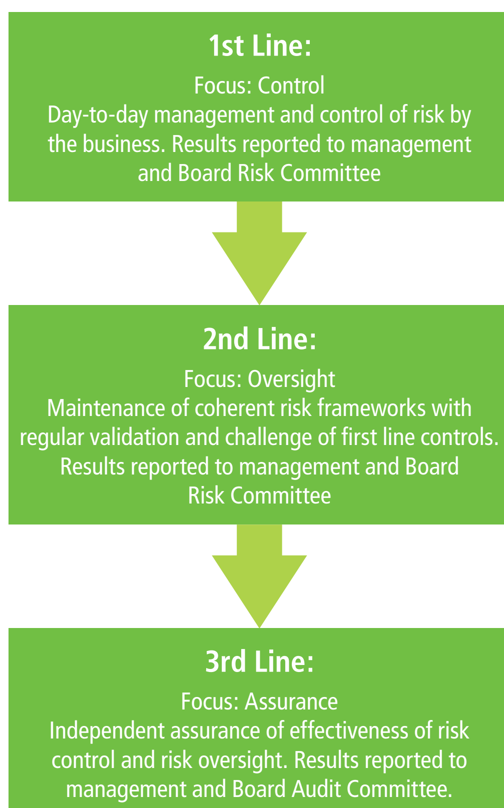
The Board Risk Committee oversees the entire risk management framework of the Group. It advises the Board on determination of risk appetite and setting of risk limits. The Committee fulfils its obligations through two approaches. Firstly, it is responsible for monitoring risks to ensure they are in line with the Group's prudent policies and with its agreed Group risk appetite statement. In doing so, the Committee considers any emerging risks and ensures significant changes in exposures to existing risks are promptly identified and addressed by management.

This includes overseeing the identification and management of project risks across the Group.

The second approach involves the Committee focusing its attention on the risks within the Group's strategy and the management of these risks.

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency and liquidity. These principal risks are detailed on pages 16 to 18 of the Strategic report and further information on risk management is given in the report commencing on page 31.

In accordance with the Code, the Board is committed to maintaining a sound system of internal controls to safeguard both its own assets and those of its members and there is an annual review of risk management and internal control systems.



The operation of these three lines of defence is embodied in the terms of reference of the Society's risk committees. The Board Risk Committee has a range of policies and procedures that relate to the identification, assessment, monitoring and control of all the main areas of risk that the Group faces.

The information received and considered by the risk committees provided reasonable assurance that during 2021 there were no material breaches of control or regulatory standards and that the Society maintained an adequate system of internal control. Where weaknesses in controls are identified by the three lines of defence, the Board monitors the steps taken to remedy the issues and to ensure that the Society responds to changing external threats and economic circumstances and to the changing regulatory environment.

Remuneration

Policy and procedures

The level and make-up of director remuneration and the procedure for developing policy on executive remuneration, (including fixing the remuneration packages of individual directors), is considered by the Remuneration Committee.

The Remuneration Committee's work and the Society's compliance with the Code principles relating to remuneration is covered in the Directors' remuneration report on pages 42 to 46.

Membership

The Committee consists of Non-Executive Directors only and met on four occasions during the year.

The Remuneration Committee reviews employment terms for the Group's employees, reporting recommended changes to the Board.

Relations with members

Dialogue with members

The Society's members are all customers of the Society. Engagement with customers is undertaken in various ways including member events, social media, customer panels, regular literature and mainstream media.

The Society is keen to find out its members' views so that it can continually improve. It provides them with a number of ways and opportunities to give their feedback. It surveys a selection of its members on a regular basis through its customer satisfaction survey. The results of this feedback are shared in Board meetings. In more normal times, members of the Board visit branches and meet with members as part of their role. The Society also encourages its members to attend its AGM where they are able to ask questions and voice their opinions. During 2021, owing to government guidance amidst the Covid-19 pandemic, members were invited to attend the meeting virtually and invited to pre-submit questions.

Furthermore, each year, the Society produces a Members' Newsletter, including the summary financial statement, which provides an abridged version of information contained within the Annual Report and Accounts. The Members' Newsletter is provided to all members as part of its annual AGM documentation. News about the Society is also shared with members on an annual basis through its 'Nottingham and You' newsletter.

Constructive use of the AGM

Each year, notice of the AGM is given to all members who are eligible to vote. Members are sent voting forms and are encouraged to vote online, by post, at a local branch or, (if permitted by government guidance relating to Covid-19), by person or proxy at the AGM.

All postal and proxy votes are counted using independent scrutineers.

All members of the Board are present at the AGM each year (unless, exceptionally, their absence is unavoidable or otherwise is not permitted in line with government guidance relating to Covid-19) and the Chairman of the Audit, Nominations, Risk and Remuneration Committees are, therefore, available to answer questions.

During 2021, only three Non-Executive Director and one Executive Director attended the meeting in person, with all other Non-Executive Directors being in attendance virtually. All pre-submitted questions were provided with an answer from the relevant Board member and members were invited to ask any questions outside of the meeting.

The Notice of the AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

On behalf of the Board,

Andrew Neden
Chairman

3 March 2022

BOARD AUDIT COMMITTEE REPORT

Board Audit Committee

The principal role of the Board Audit Committee is providing support to the Board in its oversight of financial reporting and the financial control environment across the Society. The Committee's primary functions are:

- to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing any significant financial reporting judgements which they contain, including that of the Society's going concern status;
- to keep under review the Society's financial control systems and processes that manage and monitor financial risks. Review and approve the statements to be included in the Annual Report and Accounts concerning internal control, financial risk management and the viability statement;
- to monitor and review the effectiveness of the internal audit function;
- approve and review progress of the annual Internal Audit Plan;
- prior to the members vote at the Annual General Meeting, to make recommendations to the Board for appointment, re-appointment and removal of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK law, regulation and applicable ethical standards;
- to approve the remuneration and terms of engagement of the Society's external auditor;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- to report to the Board on how the Committee has discharged its responsibilities.

Membership and attendance

The Board Audit Committee consists of four Non-Executive Directors. The members of the Committee are Michael Brierley, Kavita Patel, Kerry Spooner and Peter O'Donnell (who joined the Committee in June 2021), who have a broad range of skills, experience and knowledge relevant to the building society and financial services sector. The Company Secretary acts as Secretary to the Committee.

Other individuals such as the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and Director of Finance, may be invited to attend all or part of any meeting as and when appropriate. The external auditor was invited to attend all of the Committee's meetings held in 2021.

Private meetings are held at least once a year with the external auditor and with the Head of Internal Audit in the absence of management to enable issues to be raised directly if necessary. The Committee Chairman meets with the Head of Internal Audit on a regular basis.

Following each Committee meeting, the minutes of the meeting are distributed to the Board and the Committee Chairman provides an update to the Society's Board on key matters discussed by the Committee.

Meeting frequency and reporting

The Committee met five times in 2021 and during the year:

- reviewed the results and draft Annual Report and Accounts for the year ending 31 December 2020;
- challenged the key loan provision assumptions and judgements, underlying the analysis of expected credit losses proposed by management;
- reviewed the going concern and viability statement assumptions and all key issues and areas of judgement relating to the financial statement reporting;
- reviewed reports from the external auditor, including the management letter highlighting system and control recommendations, key accounting and audit issues and conclusions for the interim and full year financial statement reporting;
- reviewed the year end and interim financial statements and draft press releases, with consideration of the fair, balanced and understandable requirements of the UK Corporate Governance Code;
- approved the risk-based 2022 internal audit plan;
- received progress updates on the BEIS consultation relating to audit and corporate governance reforms; including updates from the external auditor;
- received and reviewed reports from internal audit;
- reviewed and approved (working with Board Risk Committee) the statements to be included in the Annual Report and Accounts concerning internal control, financial risk management and the viability statement; and
- carried out a review of the Committee's own effectiveness and terms of reference.

Significant matters in relation to the financial statements

The Committee considers a wide range of matters in relation to the financial statements, which relate mainly to key judgements, accounting policies and estimates which management have to make during the preparation of the statements, particularly in respect of large or unusual transactions. During 2021, the significant matters considered by the Committee included:

- **Expected credit loss provisioning**
  The Society reviews the IFRS 9 model outputs to estimate the level of impairment provision required across the mortgage portfolio, which uses historical default and loss experience as well as applying judgement. The Committee reviewed and challenged the approach to calculating the provisions, including the continued impact of the Covid-19 pandemic and declining expectations in the macroeconomic environment, as well as the key assumptions and resulting impact of the IFRS 9 model redevelopment completed in the year.
- **Carrying value of intangible assets**
  The Society has an increased intangible asset balance as a result of its continued investment in new technology and digitalisation. The Committee reviewed the carrying value of intangible assets, representing capitalised software, implementation and internal development costs, along with the remaining lives of those assets.
- **Accounting for intercompany balances under IFRS 9**
  The Society considered the fair value of its intercompany balances under IFRS 9 and the resulting fair value adjustments recognised in the financial statements.

- **Effective Interest Rate (EIR) methodology**
  The Society recognises interest income using a constant level of interest over the expected behavioural life of the loan. The Committee reviewed the basis of the EIR calculations.
- **Calculation of the defined benefit pension plan position**
  The Society has a defined benefit pension scheme which was closed to new entrants in 1997 and closed to future service accrual from 31 January 2009. The Committee reviewed the methodologies and assumptions used in calculating the latest estimate of the scheme's assets and liabilities. This review was supported by a report provided by the Society's pension advisors.
- **Fair value of derivative financial instruments**
  In light of the significant market volatility seen in the external markets in the year and resulting impact on derivative fair values, the Committee considered the income statement position. The Committee also considered the LIBOR-SONIA transition and impacts on hedge accounting.
- **Going concern assumption**
  The Committee evaluated whether the going concern basis of accounting was appropriate by considering forecast profitability, liquidity position, funding availability and regulatory capital positions. The review also considered the external environment as a result of the continued Covid-19 impacts and detailed stress testing scenarios completed as part of the annual liquidity and capital adequacy assessments.
- **Fair, balanced and understandable**
  The Committee reviewed the integrity of the financial statements and any formal announcements. The content of the Annual Report and Accounts was reviewed and the Committee advised the Board that, in its view, and taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy. The Committee therefore recommended that the Board approve the Annual Report and Accounts.
- **Viability statement**
  The Committee reviewed the requirements of the UK Corporate Governance Code to provide the medium-term viability statement in the Annual Report and Accounts and agreed the definition of the medium-term period.
- **Corporate Governance Code**
  The Committee reviewed the impacts on the financial statements of the Corporate Governance Code.
- **Changes to accounting standards and other relevant developments**
  The Committee is kept up to date with changes to Accounting Standards and relevant developments in financial reporting and applicable law. In addition, as appropriate members attend relevant seminars and conferences provided by external bodies.

Independence and effectiveness of external auditor

In 2014, the Society tendered its external audit relationship in line with best practice and Ernst & Young LLP were engaged during 2015 and have therefore been in post for seven years as at 31 December 2021.

In advance of the commencement of the annual audit, the Committee reviewed a report presented by the external auditor detailing the audit plan, planning materiality, areas of audit focus, terms of engagement and fees payable. Following the review of the interim financial statements and the audit of the annual financial statements, the Committee received a report detailing the work performed in areas of significant risk, and a summary of misstatements identified and internal control related issues identified. The Committee considered the matters set out in these reports as part of recommending the interim and annual financial statements for approval.

In order to monitor and assess any threats to the independence of the auditor, the Committee reviews a report on the level of spend with the auditor on audit and non-audit services. The Committee has a framework on the Society's use of the external auditor for non-audit work, to ensure their continued independence and objectivity. The external auditor undertook a number of other assurance services during the year, conducted in accordance with this policy, and details of any fees paid for other assurance services are outlined in note 6 to the accounts.

The Committee considered the performance of Ernst & Young LLP as external auditor for 2021, and is satisfied with their objectivity, independence and effectiveness and therefore recommended that they be re-appointed at the AGM for the current year.

Oversight and effectiveness of internal audit

The Committee receives regular reports from the Head of Internal Audit setting out the results of assurance activity, proposed changes to the approved audit plan and the level of resource available. Significant findings and themes identified were considered by the Committee, alongside management's response and the tracking and completion of outstanding actions. In addition to approving the annual plan and budget throughout the year, the Committee reviewed and approved amendments to the Internal Audit plan and resources.

The Committee therefore regularly monitors whether internal audit has delivered its reports in accordance with the agreed plan and to the expected standard. The Head of Internal Audit also carries out an annual review of the effectiveness of the Society's system of internal control and reports on the outcome of this review to the Committee. The Head of Internal Audit reported an adequate level of assurance in relation to the Group's arrangements for risk management, control infrastructure, governance and fraud prevention controls. The Committee therefore regards the internal audit function to be effective.

Audit committee performance and effectiveness

As outlined in the Corporate governance report on page 36, the Board and each of the committees formally evaluate their own performance and effectiveness annually. The Committee discussed the results of the 2021 review in February 2022 and concluded that, overall, the Committee continued to be effective and was adequately discharging its responsibilities.

On behalf of the Board,

Michael Brierley
Chair of the Board Audit Committee

3 March 2022

DIRECTORS' REMUNERATION REPORT

For the year ended 31 December 2021

Statement by the Chair of the Remuneration Committee

On behalf of the Committee, I am pleased to present the annual directors' remuneration report, which sets out the remuneration policy and details of the directors' remuneration in the year to 31 December 2021.

Nottingham Building Society is committed to best practice in its remuneration of directors. This report explains how The Nottingham applies the relevant principles and requirements of the remuneration regulations and Codes. The report has two sections:

- The Remuneration Policy, which sets out the Society's remuneration policy for directors; and
- The Annual Remuneration Report, which outlines how the policy was implemented in 2021.

In 2021, the Remuneration Committee membership was made up as follows:

Kerry Spooner	Non-Executive Director and Chair of the Committee
Simon Linares	Non-Executive Director
Andrew Neden	Non-Executive Director and Chairman of the Board
Kavita Patel	Non-Executive Director

2021 performance and awards

The Chairman's statement, Chief Executive's review and Strategic report on pages 4 to 18 describe 2021 as a period of good performance during a continued period of economic uncertainty. The Nottingham is a top ten building society with total assets of £3.6 billion. The year has seen a positive trading performance with regard to mortgage lending and fee income and the Society has further progressed its strategic initiatives with the launch of its Beehive Money app and new partnership relationships. We have ensured that our regulatory capital requirements continue to be maintained at appropriate levels, whilst continuing to invest in the Society, and supporting both our savings and mortgage customers.

It is in this context that the payments to Executive Directors have been determined and are detailed in this report.

The Directors variable pay is through the Annual Bonus Plan only. The Nottingham was pleased to be able to operate an Annual Bonus Plan in 2021. The deferred element of the 2017 Bonus Plan, was not paid out in 2021 as originally due, but given the 2021 performance, the Remuneration Committee has now reviewed and approved these deferrals for payment during 2022.

Remuneration Committee

The primary objective of the Remuneration Committee, under delegated authority from the Board, is to make recommendations to the Board on the general remuneration policy of The Nottingham and specifically on the remuneration of Executive Directors. The Committee also has oversight of the remuneration of both the Leadership team and Remuneration Code staff, ensuring that remuneration is in line with The Nottingham's business drivers, values and ambitions and adheres to the Remuneration Policy. In addition, the Committee is responsible for approving the variable pay and reward principles and compliance with the Remuneration Code and policy statement.

The Committee met four times in 2021 and is made up of a minimum of three Non-Executive Directors, as detailed opposite. The Chief Executive, Head of People & Development, Senior Legal Counsel & Company Secretary attend the meetings.

The Nottingham adheres to the requirements of the Remuneration Code applicable to a Level 3 firm as defined by the Regulator. The Non-Executive Directors do not receive variable remuneration. Information on The Nottingham's other Remuneration Code Staff is set out in the Pillar 3 disclosures published on our website www.thenottingham.com, along with the Committee terms of reference.

The Remuneration Committee's activities in 2021 also included:

- agreeing a new annual bonus plan for 2021;
- reviewing regulatory updates and assessing the impact on The Nottingham;
- review of the Remuneration Policy for 2021 and recommending it to the Board for approval;
- reviewing and approving the Remuneration Policy Statement ensuring its compliance with the Remuneration Code;
- oversight of the activities undertaken by the Executive Committee and People & Reward Committee in relation to reward;
- agreeing the terms for any appointments and leavers for executive level roles, Leadership team members and other Material Risk Taker roles; and
- considering the annual pay review for all eligible employees.

Remuneration policy

The Nottingham's remuneration policy reflects its objectives for good governance, appropriate risk management and acting in the long-term best interests of members.

The policy is there to ensure that:

- remuneration should be sufficient to attract, reward, retain and motivate high quality leaders and employees to run The Nottingham successfully, delivering value for our members whilst avoiding paying more than is necessary for this purpose in line with our mutual ethos; and
- remuneration is structured to strike the right balance between fixed and variable pay. Variable pay schemes are designed to incentivise and reward appropriate behaviour and performance, aligned with The Nottingham's position on risk; rewards are only attributed to the delivery of success and achievement of objectives.

The Nottingham is classified as a level 3 firm and seeks to apply appropriate remuneration best practice for all Remuneration Code and other staff.

Recruitment policy for Executive Directors

The Nottingham's approach to recruitment is to pay no more than is necessary to attract appropriate candidates to roles across the business, including Executive roles. Any new Executive Director's remuneration package will be consistent with our remuneration policy as outlined in this report. Any payments made to Executive Directors on joining The Nottingham to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the Remuneration Code and will be approved by the Remuneration Committee.

Service contracts

All Executive Directors, in line with best practice, have contracts on a 12 months 'rolling' basis requiring 12 months' notice by the Society to terminate and six months' notice by the individual.

Payment for loss of office of Executive Directors

Any compensation in the event of early termination is subject to Remuneration Committee recommendation and Board approval. Pension contributions cease on termination under the rules of the pension scheme.

Other directorships

None of the Executive Directors currently hold any paid external directorships. David Marlow is a member of the FCA Small Business Practitioners Panel for which he receives a fee of £10,000 per annum.

Executive Director's total remuneration

Executive Directors' emoluments comprise a basic salary, variable pay, pension entitlement and other taxable benefits as outlined on page 44.

The total remuneration received by Executive Directors is detailed on page 45. The information has been audited and shows remuneration for the years ending 31 December 2020 and 31 December 2021 as required under the Building Societies (Accounts and Related Provisions) Regulations 1998.

The remuneration of Executive Directors is considered annually by the Remuneration Committee attended by The Nottingham's Chief Executive, who (except in respect of his own remuneration) makes recommendations regarding executive pay and agreed recommendations are referred to the Board.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any Executive Director.

The salary of Executive Directors increased by 1% in 2021. This is in line with the wider Society, with the basic salary increase for colleagues ranging from 1% to 2.5%, with an average of 1.36%.

Chief Executive Officer (CEO) pay ratio

The CEO pay ratio is presented as follows to promote transparency and encourage good governance. The Chief Executive is the highest paid person within the organisation, and this is compared with the average employee in the organisation to calculate the CEO pay ratio. This uses a single total figure of remuneration which includes total salary, variable pay, pension and taxable benefits.

The Society has chosen to publish the CEO pay ratio using the recommended and government preferred approach (Option A). Option A involves calculating the actual Full Time Equivalent remuneration for all relevant employees for the financial year in question. These values are then listed in order from lowest to highest and the values at the three percentile points identified as disclosed below.

Year	25th percentile	Median	75th percentile
2021	23:1	17:1	10:1

2021	25th percentile	Median	75th percentile
Total remuneration	£19,545	£25,409	£43,517
Salary	£17,635	£22,378	£37,757

Employee data includes full time equivalent total remuneration for all Society employees as at 31 December 2021.

All pay is benchmarked using externally provided data and the approach to pay reviews is consistently applied to all colleagues across the Society, regardless of position.

Non-Executive Directors

The Chairman and other Non-Executive Directors each receive an annual fee reflective of the time commitment and responsibilities of the role. Fees for Non-Executive Directors are set by reference to benchmark information from a building society comparator group, agreed with the Board and take into consideration the principles underpinning the annual Society salary review.

The Non-Executive Directors' fees are reviewed by the Chairman together with the Executive Directors before recommendations are referred to the Board. Remuneration of the Chairman is considered by the Remuneration Committee, together with the Society's Chief Executive, without the Chairman being present.

Non-Executive Directors do not receive variable pay or pensions in order to encourage their independence.

Non-Executive Directors are reimbursed for reasonable expenses incurred during the course of their work on the Society's business.

Remuneration Code staff (Material Risk Takers)

The remuneration of all Remuneration Code staff is overseen directly by the Remuneration Committee. Fixed and variable pay decisions (including appointment packages) for Code Staff (excluding the Head of Internal Audit where the decision is made by the Chair of the Board Audit Committee and approved by the Remuneration Committee), are proposed by the Executive and all decisions are recommended to the Remuneration Committee for approval.

The Society's Remuneration Code staff are informed of their status through written communication. This communication includes the implications of their status including the potential for remuneration that does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the Society.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Executive Directors

The table below provides a summary of the different components of remuneration for Executive Directors:

Component	Purpose	Operation	Performance measures	Opportunity
Basic salary	Fixed remuneration set to attract and retain executives of appropriate calibre and experience. Basic salary is assessed by reference to roles carrying similar responsibilities in comparable organisations. A comparator group is used that consists of executive director positions within building societies of a similar size and complexity.	Reviewed annually and linked to personal performance and market sector benchmarking, including Willis Towers Watson benchmark data.	Increases based on: • Overall employee pay increases in the Group; • Benchmarking comparisons; • Personal performance; and • Role and experience.	The base salaries of Executive Directors are reviewed as for any other employee in accordance with the reward matrix, except in circumstances where: • Market peer benchmarking indicates that remuneration is moving out of line of the appropriate peer group; and/or • There has been a material increase in scope or responsibility to the Executive Director's role.
Variable pay Annual Bonus Plan	Linked to the delivery of the Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives. Payments under the variable pay schemes are not pensionable.	The bonus will only be awarded if the threshold criteria and Society and individual performance targets are met and a payment is triggered in the Annual Bonus Plan. 50% (60% for 2018 financial year and earlier) of the bonus is deferred for three years and payment is subject to meeting Society and individual performance threshold criteria in each of the years from award to payment. The Committee has the discretion to reduce or withhold the deferred element if it becomes apparent that the basis on which the variable pay award was made was wrong or that financial performance has deteriorated materially since the award. The deferred payment is also subject to clawback for a period of three years after payment.	The scheme is based upon three elements: • **Financial Adequacy** - Achievement of a minimum level of adjusted Profit Before Tax before any bonus is payable. • **The Annual Bonus Plan** measures Society performance against four strategic pillars: - Growing & rewarding membership; - Responsible Society; - Strategic Reinvention; - Safe & Secure. • **Individual performance** including achievement of strategic objectives. Personal performance objectives, appropriate to the responsibilities of the Executive Director, including the achievement of appropriate strategic progress are set at the start of each year. Objectives are set within board risk appetite and regulatory requirements.	On target of 18% and maximum of 36% of basic salary payable with 50% of the award deferred over a three year period.
Pension or pension allowance	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	Executive Directors are invited to join the Society's defined contribution pension plan, or, as an alternative, be provided with an equivalent cash allowance.	Not applicable.	Contribution of 15% of base salary or paid as a cash allowance. Pension contributions for new Executive Directors appointed post 1 January 2020 will be aligned with the contribution matrix for all employees.
Benefits	A part of fixed remuneration to attract and retain executives of appropriate calibre and experience.	The benefits received by Executive Directors are private medical insurance and a car allowance.	Not applicable.	Set at a level considered appropriate for each Executive Director by the Committee in line with market practice.

Annual report on remuneration

Executive Director remuneration

Audited Society	2021 David Marlow £000	2021 Daniel Mundy £000	2021 Charles Roe £000	2021 Total £000	2020 David Marlow £000	2020 Daniel Mundy £000	2020 Charles Roe £000	2020 Total £000
Fixed remuneration								
Salary[1]	327	-	-	**327**	322	278	169	**769**
Benefits	10	-	-	**10**	11	10	3	**24**
Variable remuneration								
Annual bonus[2]	54	-	-	**54**	47	-	-	**47**
	391	-	-	**391**	380	288	172	**840**
Pension contribution	49	-	-	**49**	48	42	7	**97**
	440	**-**	**-**	**440**	**428**	**330**	**179**	**937**

The Directors are able to sacrifice elements of their salary and variable pay. All figures disclosed in the table above are presented pre-sacrifice.

[1] Daniel Mundy and Charles Roe ceased to be Executive Directors with effect from 31 December 2020 and 31 March 2020, respectively.

[2] The annual bonus figure reflects the amounts awarded in the year, which are not subject to deferral, and any deferred amount from previous financial years, paid in year. The remaining element, which is subject to deferral and the achievement of threshold criteria, will be disclosed in the year of payment.

The unpaid deferred elements of the annual bonus scheme are as follows:

Executive Directors	Performance Year	Due 2021[1] 2017 £000	Due 2022 2018 £000	Due 2023 2019 £000	Due 2025 2021 £000	Total Deferred £000
David Marlow		64	56	37	54	211
		64	**56**	**37**	**54**	**211**

[1]Deferred payments for the 2017 performance year, which were due to be paid in March 2021 have been reviewed and approved for payment during 2022 by the Remuneration Committee.

Simon Taylor (who left the Society on 30 November 2018), received an outstanding deferred bonus of £47,000 in 2021. There are no further payments outstanding.

Daniel Mundy (who ceased to be an Executive Director on 31 December 2020), has three deferred payments remaining outstanding. £32,000 related to 2017 performance year, originally due in 2021; £42,000 for 2018 due in 2022; and £30,000 for 2019 due in 2023. These are subject to the achievement of the threshold criteria and Remuneration Committee approval.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Annual report on remuneration (continued)

Non-Executive Director remuneration

Audited Society		2021 £000	2020 £000
Simon Baum		60	59
Michael Brierley	(appointed 13 July 2020)	60	35
John Edwards (Chairman until retirement)	(retired 23 September 2020)	-	59
Simon Linares		45	45
Andrew Neden		90	73
Peter O'Donnell	(appointed 1 January 2021)	45	-
Kavita Patel		45	45
Kerry Spooner		55	54
TOTAL EMOLUMENTS FOR SERVICES AS DIRECTORS		**400**	**370**

On behalf of the Board,

Kerry Spooner
Chair of the Remuneration Committee

3 March 2022

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Nottingham Building Society

Opinion

In our opinion:

- the Group financial statements and the Society's financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2021 and of the Group's and the Society's income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with UK adopted international accounting standards; and
- the financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Nottingham Building Society (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Society	Page
Income statements for the year ended 31 December 2021	Income statements for the year ended 31 December 2021	54
Statements of comprehensive income for the year ended 31 December 2021	Statements of comprehensive income for the year ended 31 December 2021	55
Statements of financial position as at 31 December 2021	Statements of financial position as at 31 December 2021	56
Statements of changes in members' interests for the year ended 31 December 2021	Statements of changes in members' interests for the year ended 31 December 2021	57
Cash flow statements for the year ended 31 December 2021	Cash flow statements for the year ended 31 December 2021	58
Related notes 1 to 37 to the financial statements, including a summary of significant accounting policies, except for tables in note 31 labelled as "unaudited"		
Directors' remuneration report tables as identified as "audited"		

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international a ccounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- We obtained the directors' going concern assessment, which is for a period of 12 months from approval of the financial statements.
- We compared the historical budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We assessed the reasonableness of the Group and Society's funding plans and considered the associated risks with the maturity of significant debt obligations, and the Group and Society's planned funding schedule to offset maturities and fund operational activity.
- We considered the analysis of key relevant going concern assumptions, including those relating to financial performance, regulatory capital and liquidity, and performed independent reverse stress testing and sensitivity analysis.

- We considered the impact of Covid-19, including considerations relating to operational resilience, customer behaviour and business operations.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence, committee and board meeting minutes, and met with the Prudential Regulation Authority, in order to identify events or conditions that may impact the Group and Society's ability to continue as a going concern.
- We reviewed the going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period to 31 March 2023 – twelve months from the date of the approval of the Annual Report and accounts.

In relation to the Group and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further one component. • The components where we performed full or specific audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	• Expected credit loss provisions; • Risk of fraud in relation to revenue recognition of mortgage related income.
Materiality	• Overall Group materiality of £0.8m which represents 0.4% of total members' interests.

An overview of the scope of the Society and the Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the six reporting components of the Group, we selected three components covering entities within the United Kingdom, which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2020: 97%) of the Group's Profit before tax, 100% (2020: 100%) of the Group's Revenue and 100% (2020: 100%) of the Group's Total assets. For the current year, the full scope components contributed 100% of the Group's Profit before tax, 99% of the Group's Revenue and 100% of the Group's Total assets. The specific scope component contributed 0% of the Group's Profit before tax, 1% of the Group's Revenue and 0% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining three components that together represent less than 1% of the Group's total members' interests, none are individually greater than 1% of the Group's total members' interests. For these components, we performed other procedures, including analytical reviews to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

Arrow Mortgage Finance No.1 Limited has been designated as a full scope component in 2021 in a change from the prior period where it was designated as specific-scope. This change is a result of increased profits within Arrow Mortgage Finance No.1 Limited and it therefore now being considered a significant component based on its size and share of the Group.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by a single Group audit team.

Climate change

The Group has performed a climate-related risk assessment which is explained on pages 22-25 in the Task Force for Climate related Financial Disclosures and on page 16 in the principal risks and uncertainties, which form part of the 'Other information'. Our procedures on these disclosures consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated.

As explained in note 1, Basis of preparation on page 59, the Group considers its present financial exposure to climate-related risk, to the best of its knowledge, to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements. Our audit effort in considering climate change was focused on assessing whether the effects of potential climate risks have been appropriately reflected by management in reaching their judgements in relation to the measurement of financial assets and liabilities, and in impairment assessments. We also challenged the Directors' considerations of climate change in their assessment of viability and associated disclosure.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in relation to revenue recognition of mortgage related income		
Group and Society – 31 December 2021, income included within Interest receivable and similar income: £64.4m (2020: £68.8m), and Fees and commissions receivable: £3.0m (2020: £2.1m)		
Refer to the Audit Committee Report (page 40); Accounting policies (page 60); and Note 3 of the Consolidated Financial Statements (page 69) The majority of mortgage and fee income recorded within interest income and fees and commissions receivable on the income statement is low value and with a calculation based on contractual terms. Mortgage income and fees are a significant balance and the recognition of income on financial instruments using the effective interest rate involves accounting assumptions and complexity. As a result, the recording of interest income and fees on mortgage products represents a significant risk of fraud in revenue recognition.	We understood and evaluated the design effectiveness of key controls over the mortgage income process and adopted a substantive approach. We critically assessed the accounting policies in relation to revenue recognition under IFRS 9 and IFRS 15, including effective interest rate accounting. We independently recalculated mortgage interest recorded for the year and recalculated the element of fees to be deferred under effective interest rate accounting. We agreed, on a sample basis, the initial mortgage fees charged to supporting evidence.	We communicated that we were satisfied that the selection and application of accounting policies, including the application of effective interest rate accounting, was appropriate under IFRS 9 and IFRS 15. We communicated that our independent recalculation of mortgage interest and deferred mortgage fees did not identify any material differences.

GOVERNANCE

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected credit loss provisions Group and Society – 31 December 2021: £3.1m (2020: £4.5m)		
Refer to the Audit Committee Report (page 40); Accounting policies (page 61); and Note 15 of the Consolidated Financial Statements (page 75) Valuation and completeness of expected credit loss (ECL) provisions is an area of estimation that requires Management judgement. The Covid-19 pandemic continues to have a significant impact on the level of uncertainty in the valuation of expected credit loss provisions particularly in relation to the application of macro-economic scenarios and the estimation of the probability of default of customers in the future. Key judgements and estimates include: • Accounting interpretations and modelling assumptions used to build the credit models and calculate the ECL. • The appropriateness of staging criteria selected to determine whether a significant increase in credit risk ("SICR") has occurred. • The application of multiple macro-economic scenarios including the appropriateness of the probability weightings assigned to the various scenarios. • The completeness and valuation of post model adjustments. • Accuracy and adequacy of the financial statement disclosures.	We understood and evaluated the design effectiveness of key controls over the ECL process and adopted a substantive approach. We tested the assumptions, inputs and calculations used in the ECL models with the involvement of our credit risk modelling specialists. This included assessing the appropriateness of the model design, model implementation and model performance along with model assumption testing and sensitivity analysis. We considered the key data points in the ECL models and performed appropriate testing procedures to establish their completeness and accuracy. We independently assessed the valuation of collateral for a sample of commercial properties with support from EY real estate valuation specialists. With the support of EY economic specialists, we assessed the base case and alternative macro-economic scenarios, including challenging the probability weightings and comparing to other scenarios from external sources. We assessed whether the forecasted macro-economic variables for unemployment, interest rates and property price indices were appropriate. We critically assessed the methodology for determining the SICR criteria. We independently tested staging allocation with the support of EY credit risk modelling specialists. We assessed the completeness of post-model adjustments using our knowledge and experience across the UK lending sector and with the involvement of our credit risk modelling specialists we independently recalculated the additional ECL provision adjustment that management had applied. On completion of our procedures we performed a stand back analysis to assess the overall adequacy of the ECL provisions. This included an analytical review, assessing whether any contradictory evidence had been obtained from other parts of the audit and considering the Group and Society's provision coverage ratios in comparison to other similar lenders using available benchmarking data. We corroborated the adequacy and appropriateness of the disclosures made within the financial statements for compliance with both IFRS 9 and IFRS 7.	We communicated that we were satisfied that expected credit loss provisions were reasonable and in compliance with the requirements of IFRS 9. We considered that the models construction and implementation, the significant assumptions within the models and data inputs were materially appropriate. The basis and calculation of the post model adjustment was considered to be materially appropriate. We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate. We concluded that disclosures relating to loan impairments were in compliance with the requirements of IFRS.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £0.8 million (2020: £0.5 million), which is 0.4% of total members' interests (2020: 5% of average adjusted profit before tax).

We consider total members' interests provides us with an appropriate measure of materiality given this is a key focus area for the Society's members and regulators and is more relevant to users in an uncertain economic environment where profitability and the temporary impact of matters impacting financial reporting is less predictable.

We determined materiality for the Society to be the same as the Group materiality.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £0.6m (2020: £0.4m). We have set performance materiality at this percentage after considering our experience in the prior year, our assessment of an effective control environment and including our perspectives from the current year audit. As a result, we determined that the higher of our permissible thresholds for our performance materiality was appropriate.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, all components were allocated Group performance materiality of £0.6m, due to all procedures being performed by the same audit team.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.04m (2020: £0.03m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts set out on pages 3 to 46, including Key highlights, Chairman's statement, Chief Executive's review, Strategic report, Corporate responsibility report, Sustainability report, Your Board of directors, Directors' report, Risk management report, Corporate governance report, Board Audit Committee report and Directors' remuneration report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

- Proper accounting records have not been kept by the Society; or
- The Group or 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.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 30;
- Directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on page 30;
- Directors' statement on fair, balanced and understandable set out on page 29;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 28;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 29; and
- The section describing the work of the audit committee set out on page 40.

Directors' remuneration report

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 29, 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 Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Building Societies Act 1986.
- We understood how the Group and the Society are complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group and Society have established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing as referred to in the Key Audit Matters section above.
- The Group and the Society operate in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

Following the recommendation from the Audit Committee, we were appointed by the Society on 24 March 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods.

The period of total uninterrupted engagement, including previous renewals and reappointments is 7 years, covering the years ending 2015 to 2021.

The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
3 March 2022

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
CONTINUING OPERATIONS					
Interest receivable and similar income					
Calculated using the effective interest rate method	3	65.4	69.5	67.2	70.4
Other	3	(1.0)	(0.7)	(0.7)	(0.5)
Interest receivable and similar income		64.4	68.8	66.5	69.9
Interest payable and similar charges	4	(18.5)	(28.2)	(20.6)	(29.5)
NET INTEREST INCOME		**45.9**	**40.6**	**45.9**	**40.4**
Fees and commissions receivable		3.0	2.1	3.0	2.1
Fees and commissions payable		(0.9)	(1.0)	(0.9)	(1.0)
Other income		-	-	-	0.5
Net gains/(losses) from derivative financial instruments	5	7.9	(2.7)	5.4	(2.6)
TOTAL NET INCOME		**55.9**	**39.0**	**53.4**	**39.4**
Administrative expenses	6	(36.5)	(35.3)	(36.5)	(35.2)
Depreciation and amortisation	17,18 ,19	(6.8)	(9.1)	(6.8)	(8.7)
Operating profit/(loss) before impairment and fair value movement		12.6	(5.4)	10.1	(4.5)
Impairment release/(charge) - loans and advances	15	1.4	(2.9)	1.4	(2.9)
Fair value movement of intercompany balances	16	-	-	1.1	(0.4)
Profit on disposal of subsidiary undertaking		0.5	-	0.7	-
Profit on disposal of property, plant and equipment	17	0.4	0.1	0.4	0.1
PROFIT/(LOSS) BEFORE TAX		**14.9**	**(8.2)**	**13.7**	**(7.7)**
Tax (charge)/credit	8	(2.5)	1.2	(2.5)	1.3
PROFIT/(LOSS) AFTER TAX FOR THE FINANCIAL YEAR FROM CONTINUING OPERATIONS		**12.4**	**(7.0)**	**11.2**	**(6.4)**
DISCONTINUED OPERATIONS					
Profit/(loss) after tax for the financial year from discontinued operations	**34**	**0.2**	**(0.2)**	**-**	**-**
PROFIT/(LOSS) AFTER TAX FOR THE FINANCIAL YEAR		**12.6**	**(7.2)**	**11.2**	**(6.4)**

A reconciliation from profit/(loss) before tax for the financial year to underlying profit used by management can be found on page 11.
The 2020 Group income statement has been represented on a continuing and discontinued operations basis following the sale of a subsidiary undertaking.
The notes on pages 59 to 115 form part of these accounts.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit/(loss) for the financial year		12.6	(7.2)	11.2	(6.4)
Items that will not be re-classified to the income statement					
Remeasurements of defined benefit obligation	28	-	(3.9)	-	(3.9)
Tax on items that will not be re-classified	8	0.3	0.8	0.3	0.8
Items that may subsequently be re-classified to the income statement					
FVOCI reserve					
Valuation (losses)/gains taken to reserves	12	(0.3)	0.4	(0.3)	0.4
Tax on items that may subsequently be re-classified	8	0.2	-	0.2	-
Other comprehensive income/(expense) for the period net of income tax		**0.2**	**(2.7)**	**0.2**	**(2.7)**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**12.8**	**(9.9)**	**11.4**	**(9.1)**

Both the profit for the financial year and total comprehensive income/(expense) for the period are attributable to the members of the Society.

The notes on pages 59 to 115 form part of these accounts.

ACCOUNTS

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
ASSETS					
Cash in hand and balances with the Bank of England	9	286.1	374.9	286.1	374.9
Loans and advances to credit institutions	10	16.1	64.5	8.1	51.5
Debt securities	12	260.3	152.8	260.3	152.8
Derivative financial instruments	13	26.1	0.8	24.0	0.8
Loans and advances to customers	14	3,010.9	3,128.0	3,010.9	3,128.0
Amounts due from subsidiary undertakings	16	-	-	26.6	26.6
Other assets		3.9	5.8	3.9	5.8
Property, plant and equipment	17	10.0	10.9	10.0	10.0
Right of use assets	19	2.9	3.5	2.9	3.4
Intangible assets	18	16.8	12.5	16.8	12.5
Current tax asset		-	2.0	-	2.0
Deferred tax assets	20	1.7	2.7	1.7	2.6
TOTAL ASSETS		**3,634.8**	**3,758.4**	**3,651.3**	**3,770.9**
LIABILITIES					
Shares	21	2,874.6	2,794.2	2,874.6	2,794.2
Amounts owed to credit institutions	22	346.1	456.6	346.1	456.6
Amounts owed to other customers	23	22.9	34.9	22.9	34.9
Amounts owed to subsidiary undertakings	24	-	-	145.2	205.2
Debt securities in issue	25	127.1	193.7	-	2.5
Derivative financial instruments	13	6.5	32.5	6.5	32.1
Other liabilities and accruals	26	6.3	5.7	6.3	5.3
Lease liabilities	19	3.2	4.4	3.2	3.9
Current tax liabilities		0.6	-	0.6	-
Retirement benefit obligations	28	4.4	5.9	4.4	5.9
Subscribed capital	29	24.0	24.2	24.0	24.2
TOTAL LIABILITIES		**3,415.7**	**3,552.1**	**3,433.8**	**3,564.8**
RESERVES					
General reserves		219.2	206.3	217.6	206.1
Fair value reserves	30	(0.1)	-	(0.1)	-
Total reserves attributable to members of the Society		**219.1**	**206.3**	**217.5**	**206.1**
TOTAL RESERVES AND LIABILITIES		**3,634.8**	**3,758.4**	**3,651.3**	**3,770.9**

The notes on pages 59 to 115 form part of these accounts.

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

Andrew Neden
Chairman

David Marlow
Chief Executive

STATEMENTS OF CHANGES IN MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 DECEMBER 2021

	General reserves £m	FVOCI reserve £m	Total £m
GROUP 2021			
Balance as at 1 January 2021	206.3	-	206.3
Profit for the year	12.6	-	12.6
Other comprehensive income/(expense) for the period (net of tax)			
Net gains/(losses) from changes in fair value	0.3	(0.1)	0.2
Total other comprehensive income/(expense)	0.3	(0.1)	0.2
Total comprehensive income/(expense) for the period	12.9	(0.1)	12.8
BALANCE AS AT 31 DECEMBER 2021	**219.2**	**(0.1)**	**219.1**
GROUP 2020			
Balance as at 1 January 2020	216.6	(0.4)	216.2
Loss for the year	(7.2)	-	(7.2)
Other comprehensive (expense)/income for the period (net of tax)			
Net (losses)/gains from changes in fair value	(3.1)	0.4	(2.7)
Total other comprehensive (expense)/income	(3.1)	0.4	(2.7)
Total comprehensive (expense)/income for the period	(10.3)	0.4	(9.9)
BALANCE AS AT 31 DECEMBER 2020	**206.3**	**-**	**206.3**

	General reserves £m	FVOCI reserve £m	Total £m
SOCIETY 2021			
Balance as at 1 January 2021	206.1	-	206.1
Profit for the year	11.2	-	11.2
Other comprehensive income/(expense) for the period (net of tax)			
Net gains/(losses) from changes in fair value	0.3	(0.1)	0.2
Total other comprehensive income/(expense)	0.3	(0.1)	0.2
Total comprehensive income/(expense) for the period	11.5	(0.1)	11.4
BALANCE AS AT 31 DECEMBER 2021	**217.6**	**(0.1)**	**217.5**
SOCIETY 2020			
Balance as at 1 January 2020	215.6	(0.4)	215.2
Loss for the year	(6.4)	-	(6.4)
Other comprehensive (expense)/income for the period (net of tax)			
Net (losses)/gains from changes in fair value	(3.1)	0.4	(2.7)
Total other comprehensive (expense)/income	(3.1)	0.4	(2.7)
Total comprehensive (expense)/income for the period	(9.5)	0.4	(9.1)
BALANCE AS AT 31 DECEMBER 2020	**206.1**	**-**	**206.1**

The notes on pages 59 to 115 form part of these accounts.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax from continuing operations		14.9	(8.0)	13.7	(7.7)
Profit/(loss) from discontinued operations		0.2	(0.4)	-	-
Depreciation and amortisation		6.8	9.1	6.8	8.7
Profit on disposal of property, plant and equipment		(0.4)	(0.1)	(0.4)	(0.1)
Profit on disposal of subsidiary undertaking		(0.5)	-	(0.7)	-
Interest on subscribed capital		2.0	2.0	2.0	2.0
Interest on lease payments		0.1	0.1	0.1	0.1
Net gains on disposal and amortisation of debt securities		0.3	-	0.3	-
(Decrease)/increase in impairment		(1.4)	2.9	(1.4)	2.9
		22.0	**5.6**	**20.4**	**5.9**
CHANGES IN OPERATING ASSETS AND LIABILITIES					
(Increase)/decrease in prepayments, accrued income and other assets		(23.0)	(1.1)	(82.0)	120.5
(Decrease)/increase in accruals, deferred income and other liabilities		(25.9)	20.3	(24.8)	20.2
Decrease in loans and advances to customers		118.5	30.5	118.5	30.5
Increase in shares	21	80.4	13.1	80.4	13.1
Decrease in amounts owed to other credit institutions and other customers	22,23	(122.5)	(211.7)	(122.5)	(211.7)
(Decrease)/increase in loans and advances to credit institutions		42.4	(21.5)	42.4	(21.5)
(Decrease)/increase in debt securities in issue	25	(66.6)	125.6	(2.5)	(3.0)
Decrease in retirement benefit obligation	28	(1.5)	(1.5)	(1.5)	(1.5)
Taxation received		1.4	0.3	1.4	0.3
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**25.2**	**(40.4)**	**29.8**	**(47.2)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of debt securities		(168.5)	(61.7)	(168.5)	(61.7)
Disposal of debt securities		60.4	215.9	60.4	215.9
Purchase of property, plant and equipment		(1.4)	(1.3)	(1.4)	(1.1)
Disposal of property, plant and equipment		0.6	0.1	0.6	0.1
Consideration on disposal of subsidiary undertaking or trade and assets		0.3	0.2	0.7	-
Purchase of intangible assets		(8.6)	(0.6)	(8.6)	(0.6)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(117.2)**	**152.6**	**(116.8)**	**152.6**
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on subscribed capital	36	(1.9)	(1.9)	(1.9)	(1.9)
Principal element of lease payments		(0.9)	(0.9)	(0.9)	(0.9)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(94.8)**	**109.4**	**(89.8)**	**102.6**
Cash and cash equivalents at 1 January		382.0	272.6	369.0	266.4
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**11**	**287.2**	**382.0**	**279.2**	**369.0**

The notes on pages 59 to 115 form part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

Both the Society and Group annual accounts are prepared and approved by the directors in accordance with UK adopted international accounting standards (IAS) and those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to societies reporting under UK adopted IAS. The annual accounts are prepared under the historical cost convention as modified by the fair value of FVOCI assets, certain intercompany balances and derivatives.

The financial statements are prepared in pounds sterling, which is the functional currency of the Group, and have been rounded to the nearest one hundred thousand pounds.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known nor capable of reasonable estimation. The degree of uncertainty of these changes may also mean that they cannot be conclusively taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of applicable accounting standards. At 31 December 2021, the Group considers its present financial exposure to climate-related risk to the best of its knowledge to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements. We will seek to develop this going forward as the responses develop sufficiently to apply reasonable estimation.

The Directors have considered the risks and uncertainties discussed on pages 16 to 18 and 31 to 35, and the extent to which they might affect the preparation of the Annual Report & Accounts on a going concern basis. Key to this consideration were the risks associated to regulatory capital, liquidity and financial performance, and the impact on these risks arising from the continuing uncertainties created by Covid-19 and climate change. As with many other financial institutions, the Group meets its day-to-day liquidity requirements through prudent management of its retail and wholesale funding sources. It ensures it maintains sufficient liquidity to meet both normal business demands and those that may arise in stressed circumstances. The Group has a surplus to regulatory capital requirements and is forecasting this to remain across the going concern assessment period. Furthermore the Group's forecasts and plans, taking account of current and possible future operating conditions, including stress tests and scenario analysis, which have considered income, expenses and overall quality of the mortgage portfolio, indicate that the Group has sufficient operating liquidity and capital for the foreseeable future, and specifically for the going concern assessment period to 31 March 2023 – twelve months from the date of the approval of the Annual Report and Accounts. As such, the Directors are satisfied that the Group has adequate resources to continue in business and to use the going concern basis in preparing the accounts.

The accounting policies for the Group also include those for the Society unless otherwise stated.

The preparation of accounts in conformity with UK adopted IAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Changes in accounting policy and future accounting developments

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39 and IFRS 7 was issued by the IASB in August 2020 and the Society has adopted from 1 January 2021. The amendments allow a relief for accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow organisations to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the income statement as per the usual requirements under the relevant accounting standard for modifications of financial assets and liabilities.

In addition, the amendments state that a hedging relationship must not be discontinued solely due to the IBOR reform. Where the Society's hedging instruments and hedged items that are in a hedging relationship have been converted from LIBOR to SONIA, the hedging relationship has not been discontinued and all hedging documentation has been updated accordingly in line with the requirements of the amendments.

During the year, the Society has exposure to LIBOR-linked financial instruments, predominately interest rate derivatives and as at 31 December 2021, all remaining LIBOR exposures have been converted to an alternative benchmark rate under the ISDA Fallback Protocol and therefore no further risks remain to the Group. Further detail is disclosed in note 35.

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2021 and beyond. They do not impact the financial statements of the Group.

Basis of consolidation

Subsidiary companies are defined as those in which the Society has the power over relevant activities, has exposure to the rights of variable returns and has the influence to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending on 31 December. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date that ownership ceases.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Special purpose funding vehicles

The Society has transferred the beneficial interest in certain loans and advances to customers to special purpose funding vehicles (SPV). These SPVs enable a subsequent raising of debt to investors who gain the security of the underlying assets as collateral. The SPVs are fully consolidated into the Group accounts in accordance with IFRS 10 as the Society is deemed to have control over the SPV because it has power and exposure to variable returns. The transfer of the beneficial interest in these loans to the SPVs are not treated as sales by the Society. The Society continues to recognise these assets within its own Statement of Financial Position after the transfer because it retains substantially all the risk and rewards of the portfolio through the receipt of the majority of profits of the structured entity. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPV, which is held at amortised cost.

Business combinations between mutual organisations

Identifiable assets and liabilities are measured at fair value. Intangible assets are amortised through the income statement over their estimated useful lives, being between one and ten years. A deemed purchase price is calculated by measuring the fair value of the acquired business. Goodwill is measured as the difference between the adjusted value of the acquired assets and liabilities and the deemed purchase price. Goodwill is recorded as an asset; negative goodwill is recognised in the income statement.

Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments are recognised in 'interest receivable and similar income' or 'interest payable and similar charges'.

The effective interest rate (EIR) method is applied for all financial assets or liabilities recorded at amortised cost, FVOCI, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. The effective interest rate is the rate that discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying amount of the financial asset or liability. This may include fees and commissions if they are an integral part of the effective interest rate of a financial instrument.

Interest income on financial assets is calculated by applying the EIR to the gross carrying amount of the financial asset, unless considered credit impaired. When a financial asset becomes credit impaired, and therefore considered as Stage 3, interest income is calculated by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit impaired, interest income is reverted to being calculated on a gross basis.

Interest income and expense also includes interest on derivatives measured at FVPL, where hedge accounting is not applied, using the contractual interest rate.

Fees and commissions

Fees receivable are generally recognised when all performance obligations of the contract have been fulfilled, with fees earned on the sale of properties recognised on the date contracts are exchanged.

Commission receivable from the sale of third party products is recognised upon fulfilment of contractual performance obligations, that is the inception date of the product or on completion of a mortgage.

If the fees are an integral part of the effective interest rate of a financial instrument, they are recognised as an adjustment to the effective interest rate and recorded in interest receivable/payable.

Fees payable are recognised on an accruals basis when the service has been provided or on the completion of an act to which the fee relates.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, treasury bills and other eligible bills and loans and advances to credit institutions.

Derivative financial instruments and hedge accounting

The Group uses derivatives only for risk management purposes. It does not use derivatives for trading purposes. Derivatives are measured at fair value in the statement of financial position. Fair values are obtained by applying quoted market rates to a discounted cash flow model. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Group looks to designate derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group documents formally the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

If derivatives are not designated as hedges, then changes in their fair values are recognised immediately in the income statement in the period in which they arise.

Fair value hedges

Portfolio fair value hedges are used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line in the income statement as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedge item, for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

1. ACCOUNTING POLICIES (CONTINUED)

Financial assets

Classification and Measurement

Financial assets comprise cash, loans and advances to credit institutions, debt securities, derivative financial instruments and loans and advances to customers. The Group classifies non-derivative financial assets as either amortised cost, FVOCI or FVPL depending on the business model for managing the assets and the contractual cash flow characteristics. The Group determines its business model at the level that best reflects how it manages groups of assets to achieve its business objective. In making this assessment it considers how the performance of the business model is evaluated and reported within the Group, how the risks of the business model are managed and the expected frequency, value and timing of sales of assets. The contractual terms of the financial assets are assessed to determine whether their cash flows represent solely payments of principal and interest or expose the Group to other risks. Management determines the classification of financial assets under IFRS 9 at the earlier of 1 January 2018 or initial recognition.

Amortised cost

Financial assets whose business model is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) are measured at amortised cost. Interest income from these financial assets is included in net interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. The carrying value of these assets is adjusted by any expected credit loss allowance recognised. The Society classifies the following financial instruments as amortised cost:

- cash in hand and balances with the Bank of England;
- loans and advances to credit institutions; and
- loans and advances to customers.

Loans and advances to customers

The initial value of loans and advances to customers may, if applicable, include certain upfront costs and fees such as procuration fees, legal fees, mortgage indemnity guarantee premiums and application fees, which are recognised over the expected life of mortgage assets. Mortgage discounts are also recognised over the expected life of mortgage assets as part of the effective interest rate.

Throughout the year and at each year end, the mortgage life assumptions are reviewed for appropriateness. Any changes to the expected life assumptions of the assets are recognised through interest receivable and similar income and reflected in the carrying value of the mortgage assets.

Included in loans and advances to customers of the Society are balances which have been used to secure funding issued by the Group's special purpose vehicle, which is consolidated into the Group financial statements. The beneficial interest in the underlying loans has been transferred to this entity. The loans are retained within the Society's Statement of Financial Position however, as the Society retains substantially all of the risks and rewards relating to the loans.

Fair value through other comprehensive income (FVOCI)

The Society recognises its debt securities as FVOCI assets. The business model for these financial assets is to hold for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest and are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (OCI). When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from reserves to the income statement. Interest income from these financial assets is included in net interest income using the effective interest rate method. The expected credit loss for these assets does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were at amortised cost, is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Interest income from these financial assets is included in net interest income. The Society recognises its derivative financial instruments and some of its balances with subsidiary entities as FVPL assets.

Impairment of financial assets not carried at fair value through profit or loss

Under IFRS 9, the Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination and the measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- **Stage 1**: A financial instrument that is not credit-impaired on initial recognition and its credit risk has not significantly increased since origination. ECL is measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- **Stage 2**: If a significant increase in credit risk (SICR) since initial recognition is identified, the financial asset is moved to 'Stage 2' but is not yet deemed to be credit impaired. The definition of a significant increase in credit risk is detailed below. ECL for stage 2 assets are measured based on expected credit losses on a lifetime basis.
- **Stage 3**: If the financial asset is credit-impaired, it is moved to 'Stage 3'. The definition of credit-impaired and default is outlined below. ECL for stage 3 assets is also measured on expected credit losses on a lifetime basis.

Forward-looking information is taken into account in the measurement of ECL with its use of economic assumptions such as inflation, unemployment rates, house price indices and Gross Domestic Product.

The Group has no purchased or originated credit impaired assets and has not applied any simplified approaches.

1. ACCOUNTING POLICIES (CONTINUED)

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one of more of the following criteria has been met:

Financial instrument	Definition of significant increase in credit risk
2021 Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% AND absolute threshold of 0.5%; or • In forbearance.
2020 Loans and advances to customers – Retail	• Over 30 days past due on contractual repayments; • In forbearance; • Lifetime probability of default doubled since origination; and • Lifetime probability of default greater than 1%.
2021 Loans and advances to customers – SBL	• Over 30 days past due on contractual repayments; • Change in PD exceeds relative threshold of 100% AND absolute threshold of 0.5%; or • In forbearance.
2020 Loans and advances to customers – SBL	• Over 30 days past due on contractual repayments; • On management watch list; • Lifetime probability of default doubled since origination; or • In forbearance.
2020 & 2021 Wholesale liquidity instruments	• Any arrears or receipt of adverse information

During the year, the Society has updated its SICR criteria. This has been treated as a change in accounting estimate and further disclosed on page 65 and in note 15.

Definition of default and credit-impaired

The Group defines a financial asset as in default, which is fully aligned with the definition of credit-impaired, when it is more than 90 days past due on contractual repayments.

It is the Society's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months for forbearance defaults and nine months for any other defaults. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated position, at the time of the cure, and whether there has been a significant increase in credit risk compared to initial recognition.

Loans and advances to customers

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Forecasts of these economic variables are provided by a reputable third party on a regular basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime, a mean reversion approach is used, i.e. long-run averages.

In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied four (2020: three) scenarios in the model calculations to align with wider market practices. Further details of these scenarios are outlined in note 15.

ECL models

The ECL models are driven by three key components:

- **Probability of Default (PD):** The PD model takes attributes of the mortgage accounts on the portfolio (for example, origination vintage and time on book) and adjusts for the impacts of a range of independently sourced forward-looking macroeconomic scenarios to produce a vector detailing the likelihood of an account defaulting in a given month within the expected behavioural lifetime. The model outputs are scaled against a number of internal risk grades which are determined using the Society's behavioural scoring models. These behavioural scoring models contain a combination of internal and externally derived data to rank the mortgage accounts by risk and pool the accounts into groups of comparable expected performance.
- **Exposure at Default (EAD):** The EAD model predicts the loan exposure of each mortgage account at a future default date. The model takes into account balance amortisation and accrued interest from missed payments given expected changes in the repayment terms of the mortgage; for example interest rates may move in a manner consistent with the macroeconomic scenarios. The calculation produces a vector to represent 'expected' EAD at each potential point of default along the vector from the reporting date up to the expected behavioural lifetime; and
- **Loss Given Default (LGD):** The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default were to occur in any given month over the expected behavioural lifetime of the mortgage account. LGD takes into account the EAD in comparison to the value expected to be recovered through the sale of an asset, given the macroeconomic scenario specific trend in property price indices. The expectation of loss is then scaled to reflect the likelihood of a mortgage account reaching default, progressing on to sale of the asset.

Forbearance strategies and renegotiated loans

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Society include:

- Reduced monthly payment;
- An arrangement to clear outstanding arrears;
- Capitalisation of arrears; and
- Extension of mortgage term.

1. ACCOUNTING POLICIES (CONTINUED)

During the year, the Society has also offered payment deferrals in response to the Covid-19 pandemic, through to the end of government scheme.

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

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of six months' qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation. The original effective interest rate will be retained.

Modifications

The Society may on occasion modify the contractual terms of loans provided to customers. When this is solely for commercial reasons and considered part of the ordinary course of business, there is no impact on the impairment approach. Generally, forbearance at the Society, whether retail or SBL lending, does not result in the terms of the loan being modified so significantly that it becomes substantially a different financial asset, and therefore, the original loan remains and does not result in derecognition.

Write off of financial assets

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery, for example by bankruptcy, insolvency, renegotiation and similar events. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the loss allowance, which is then applied to the gross carrying amount. Any subsequent recoveries are credited to the income statement on settlement receipt.

Cash in hand and balances with the Bank of England, Loans and advances to credit institutions and Debt securities

The Group reviews the external credit ratings of its liquid assets at each reporting date. Those assets, which are of investment grade or higher, are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition. This includes the Society's debt security portfolio. The Society's policy to allow only high quality, senior secured exposures to Residential Mortgage Backed Securities (RMBS) and Covered Bonds ensures continued Society receipt of contractual cash flows in stressed scenarios. For all other wholesale liquidity balances, a simple model calculates the ECL allowance, based on externally provided 12 month PD rates for individual counterparties.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

Financial liabilities

All non-derivative financial liabilities, that include shares and wholesale funds, held by the Group are measured at amortised cost with interest recognised using the effective interest rate method. Discounts and other costs incurred in the raising of wholesale funds are amortised over the period to maturity using the effective interest rate method.

Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined as:

Level 1 – Valuation using quoted market prices

Financial instruments are classified as level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Financial instruments are classified as level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels can generally be determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Subscribed capital

Subscribed capital comprises Permanent Interest Bearing Shares (PIBS) which have no voting rights and have contractual terms to settle interest and is therefore classified as a financial liability. It is presented separately on the face of the statement of financial position. Subscribed capital is initially recognised at 'fair value' being its issue proceeds net of transaction costs incurred.

The interest on the subscribed capital is recognised on an effective interest rate basis in the income statement as interest expense.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Computer Software

Purchased software and costs and internal time directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred. Intangible assets are stated at cost less cumulative amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between 3 to 8 years. The amortisation periods used are reviewed annually.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Property, plant and equipment

Additions and improvements to office premises and equipment, including costs directly attributable to the acquisition of the asset, are capitalised at cost. The property, plant and equipment value in the statement of financial position represents the original cost, less cumulative depreciation. The costs, less estimated residual values of assets, are depreciated on a straight-line basis over their estimated useful economic lives as follows:

- Freehold buildings 50 - 100 years;
- Leasehold premises over the remainder of the lease or 100 years if shorter;
- Refurbishment of premises over 5 to 10 years or length of lease if shorter;
- Equipment, fixtures, fittings and vehicles over 4 to 10 years;
- No depreciation is provided on freehold land.

Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

Employee benefits

Long-term incentive schemes

The costs of bonuses payable after the end of the year in which they are earned are recognised in the year in which the employees render the related service. Where long-term incentive schemes run over more than one year, the costs are recognised over the life of the scheme. The long-term incentive bonuses disclosed in the Directors' remuneration report are included when paid. The annual bonus figure disclosed reflects the amount awarded in the year which is not subject to deferral and is the total paid. The element subject to deferral is disclosed in the year of payment.

Pensions

The Group operated a contributory defined benefit pension scheme until 31 January 2009 when it was closed to future service accrual. The assets are held in a separate trustee administered fund. Included within the statement of financial position is the Group's net obligation calculated as the present value of the defined benefit obligation less the fair value of plan assets less any unrecognised past service costs. Any remeasurements that arise are recognised immediately in other comprehensive income through the statement of comprehensive income. The finance cost is recognised within finance income and expense in the income statement. The finance cost is the increase in the defined benefit obligation which arises because the benefits are one period closer to settlement.

Contributions are transferred to the trustee administered fund on a regular basis to secure the benefits provided under the rules of the scheme. Pension costs are assessed in accordance with the advice of a professionally qualified actuary.

The Group also operates a contributory defined contribution pension scheme, the assets of which are held separately from those of the Group. For this scheme the cost is charged to the income statement as contributions become due.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities, as the current value of future lease payments, and right-of-use assets representing the right to use the underlying leased assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight line basis over the lease term, adjusted to take account of any expected break or extension options.

- Leasehold premises over 10 to 15 years;
- Equipment, fixtures, fittings and vehicles over 3 to 5 years;
- Motor vehicles over 3 to 5 years;

Right-of-use assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1. ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under any residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is determined based on the cost of funding to the Group. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Group does not have an option to purchase the underlying asset in its lease agreements.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date). It also applies the lease of low-value assets recognition exemption to assets that are considered be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the term of the lease.

Taxation

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

Current tax is the expected tax payable on the taxable income and gains arising in the accounting period.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and the authority permits the company to make a single net payment. Deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Both current and deferred taxes are determined using the rates enacted or substantively enacted at the statement of financial position date.

Tax relating to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Tax relating to actuarial gains/(losses) on retirement benefit obligations is recognised in other comprehensive income.

Provisions and contingent liabilities

The Group recognises a provision when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The Society has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when the Society has an obligation in accordance with IFRIC 21. The amount provided is based on information received from the FSCS, forecast future interest rates and the Society's historic share of industry protected deposits.

Contingent liabilities are potential obligations from past events which will only be confirmed by future events. Contingent liabilities are not recognised in the Statement of financial position.

Accounting estimates and judgements

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's significant accounting policies, other than those involving estimations, which have had a significant effect on the amounts recognised in the financial statements. The Group's significant estimates, including judgements involving estimations, are shown below.

Impairment losses on loans and advances to customers

The Group reviews its mortgage advances portfolio at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded, the Group is required to exercise a degree of judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values and the assessment of significant increase in credit risk. The Society's ECL calculations under IFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, which individually are not possible to isolate. Note 1 on page 61 outlines the accounting policies and key definitions for IFRS 9.

Key elements of the ECL models that are considered accounting judgements, including estimation, include:

- The internal credit grading model, which assigns PDs to individual accounts;
- The criteria for assessing if there has been a significant increase in credit risk;
- Determination of associations between macroeconomic scenarios, economic inputs and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive economic inputs to the ECL models.

During the year, as part of model development activity, the Society has reviewed its criteria assessing whether there has been a significant increase in credit risk and its number of economic scenarios used. This has resulted in a change in accounting estimate.

As identified in note 15 on page 76, the implementation of an absolute and relative threshold as part of that change in criteria has improved staging sensitivity in the models but has no material impact on the overall expected credit loss provision. The move to use four economic scenarios instead of three results in a movement of less than £0.1m in the ECL allowance.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

The models are now more responsive to the economic scenarios and less reliant on Gross Domestic Product as a model input. As a result, the total prior year ECL position of £4.5m at 31 December 2020, would have had a £0.9m higher core modelled output and a lower equivalent post model adjustment.

The future impact of the revised models is not possible to anticipate.

Applying a 100% weighting to the Society's core economic scenario results is disclosed in note 15 on page 80.

At 31 December 2021, the Society continues to recognise a post model adjustment in the financial statements to reflect the ongoing heightened uncertainty over the macroeconomic environment. This required the use of management judgement and estimation to determine the level of adjustment to be recognised. This is detailed in note 15 on page 76.

Expected mortgage life

In determining the expected life of mortgage assets, which is used as part of the effective interest rate calculation, the Group uses historical and forecast redemption data as well as management judgement. At regular intervals throughout the year, the expected life of mortgage assets is reassessed for reasonableness. Any variation in the expected life of mortgage assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

The Group has assessed that no member remains on a Standard Variable Rate (SVR) for any meaningful period of time at the end of their product term. A two week extension of the time spent on SVR would result in an increase in the value of loans on the statement of financial position by approximately £0.3 million.

Employee benefits

The Group operates a defined benefit pension scheme. Significant judgements (on such areas as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in note 28 to the accounts. Of these assumptions, the main determinant of the liability is the discount rate. A variation of 0.1% in the discount rate will change liabilities by approximately £1.1 million.

2. SEGMENTAL REPORTING

Nottingham Building Society and its subsidiaries are all UK registered entities, the activities of which are detailed below and in Note 16. The Group operates throughout the UK therefore no geographical analysis has been presented.

The chief operating decision maker has been identified as the Group Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Operating segments are reported in a manner consistent with the internal reporting provided to the Board.

The Group reports through three operating segments:

Continuing operations

- **Retail financial services** – Provides mortgages, savings, third party insurance and investments. Includes all income and costs associated with Nottingham Building Society and Arrow Mortgage Finance No. 1 Ltd.

Discontinued operations

- **Estate agency** – Discontinued in the prior year. Previously provided estate agency and lettings services. Includes all income and costs associated with Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings Ltd.
- **Mortgage Broking** – Discontinued in the current year. Provided whole-of-market mortgage broking services. Includes all income and costs associated with Nottingham Mortgage Services Ltd.

Discontinued operations are further considered in note 34.

The 2020 segmental analysis has also been represented to reflect the sale of the mortgage broking segment during 2021.

2021	Retail financial services £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Mortgage broking £m	Total Group £m
Net interest income	45.9	-	45.9	-	45.9
Fees and commission receivable	3.0	-	3.0	1.0	4.0
Fees and commission payable	(0.9)	-	(0.9)	-	(0.9)
TOTAL INCOME	**48.0**	**-**	**48.0**	**1.0**	**49.0**
Administrative expenses	(35.4)	-	(35.4)	(0.8)	(36.2)
Depreciation and amortisation	(6.8)	-	(6.8)	-	(6.8)
Impairment release on loans and advances	1.4	-	1.4	-	1.4
UNDERLYING PROFIT	**7.2**	**-**	**7.2**	**0.2**	**7.4**
Net gains from derivative financial instruments	7.9	-	7.9	-	7.9
Profit on disposal of subsidiary undertaking	0.7	(0.2)	0.5	-	0.5
Profit on disposal of property, plant & equipment	0.4	-	0.4	-	0.4
Strategic investment costs	(1.1)	-	(1.1)	-	(1.1)
Fair value movement of intercompany balances	1.1	(1.1)	-	-	-
PROFIT/(LOSS) BEFORE TAX	**16.2**	**(1.3)**	**14.9**	**0.2**	**15.1**
Tax charge	(2.5)	-	(2.5)	-	(2.5)
PROFIT/(LOSS) AFTER TAX	**13.7**	**(1.3)**	**12.4**	**0.2**	**12.6**
Total assets	3,634.8	-	3,634.8	-	3,634.8
Total liabilities	3,415.7	-	3,415.7	-	3,415.7
Capital expenditure	10.0	-	10.0	-	10.0

NOTES TO THE ACCOUNTS (CONTINUED)

2. SEGMENTAL REPORTING (CONTINUED)

2020	Retail financial services £m	Estate Agency to be transferred £m	Consolidation adjustments £m	Group continuing operations £m	Discontinued operations: Estate agency £m	Discontinued operations: Mortgage broking £m	Total Group £m
Net interest income	40.6	-	-	40.6	-	-	40.6
Fees and commission receivable	2.1	-	-	2.1	0.9	1.7	4.7
Fees and commission payable	(1.0)	-	-	(1.0)	-	-	(1.0)
Other income	0.5	-	(0.5)	-	-	-	-
TOTAL INCOME	**42.2**	**-**	**(0.5)**	**41.7**	**0.9**	**1.7**	**44.3**
Administrative expenses	(31.7)	-	-	(31.7)	(0.9)	(1.4)	(34.0)
Depreciation and amortisation	(6.7)	(0.4)	-	(7.1)	-	-	(7.1)
Impairment losses on loans and advances	(2.9)	-	-	(2.9)	-	-	(2.9)
Profit on disposal of property, plant & equipment	0.1	-	-	0.1	-	-	0.1
UNDERLYING PROFIT/(LOSS)	**1.0**	**(0.4)**	**(0.5)**	**0.1**	**-**	**0.3**	**0.4**
Net losses from derivative financial instruments	(2.7)	-	-	(2.7)	-	-	(2.7)
Other income	-	-	-	-	0.2	-	0.2
Strategic investment costs	(4.1)	-	-	(4.1)	(0.6)	-	(4.7)
Change in accounting estimates	(1.6)	-	-	(1.6)	-	-	(1.6)
Fair value movement of intercompany balances	(0.4)	0.4	-	-	-	-	-
(LOSS)/PROFIT BEFORE TAX	**(7.8)**	**-**	**(0.5)**	**(8.3)**	**(0.4)**	**0.3**	**(8.4)**
Tax credit	1.3	-	-	1.3	-	(0.1)	1.2
(LOSS)/PROFIT AFTER TAX	**(6.5)**	**-**	**(0.5)**	**(7.0)**	**(0.4)**	**0.2**	**(7.2)**
Total assets	3,756.6	1.5	(0.2)	3,757.9	-	0.5	3,758.4
Total liabilities	3,551.4	0.6	(0.2)	3,551.8	-	0.3	3,552.1
Capital expenditure	1.7	-	-	1.7	-	-	1.7

The continuing Estate Agency segment relates to property costs which have been transferred to other Group entities and therefore will remain ongoing in future periods.

Any transactions between operating segments relate to introducer fees, central cost recharges and rents. All revenue with the exception of introducer fees and central recharges is externally generated with no one segment relying on a significant customer.

There are no further reportable segments or activities which are not presented above or in the primary statements on pages 54 to 58.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On loans fully secured on residential property	67.3	72.4	67.3	72.4
On other loans	7.3	4.6	7.3	4.6
On amounts due from group undertakings	-	-	1.8	1.0
On liquid assets	0.4	1.0	0.4	1.0
On instruments held at amortised cost	75.0	78.0	76.8	79.0
On debt securities	0.7	1.3	0.7	1.3
On derivative hedging of financial assets	(10.3)	(9.8)	(10.3)	(9.9)
On instruments calculated on an EIR basis	65.4	69.5	67.2	70.4
On derivatives not in a hedge accounting relationship	(1.0)	(0.7)	(0.7)	(0.5)
	64.4	**68.8**	**66.5**	**69.9**

Interest on debt securities includes £0.3 million (2020: £0.7 million) arising from fixed income investment securities.

Included within interest income is £0.2 million (2020: £0.2 million) in respect of interest income accrued on impaired loans three or more months in arrears.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On shares held by individuals	14.8	24.3	14.8	24.3
On amounts due to group undertakings	-	-	3.4	2.0
On deposits and other borrowings	2.1	2.6	0.8	1.9
On subscribed capital	2.0	2.0	2.0	2.0
On leases	0.1	0.1	0.1	0.1
On derivative hedging of financial liabilities	(0.5)	(0.8)	(0.5)	(0.8)
	18.5	**28.2**	**20.6**	**29.5**

ACCOUNTS

5. NET GAINS/(LOSSES) FROM DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Derivatives in designated fair value hedge relationships	47.1	(16.7)	47.1	(16.7)
Adjustments to hedged items in fair value hedge accounting relationships	(40.4)	15.0	(40.4)	15.0
Derivatives not in designated fair value hedge relationships	1.2	(1.0)	(1.3)	(0.9)
	7.9	**(2.7)**	**5.4**	**(2.6)**

The net gain from derivative financial instruments of £7.9 million (2020: £2.7 million loss) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items. The movement is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

Further information regarding the Group and Society's derivative financial instruments and fair value hedge accounting is presented in notes 13, 31 and 35 of these financial statements.

6. ADMINISTRATIVE EXPENSES

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Continuing operations				
Wages and salaries	18.3	18.0	18.3	18.0
Social security costs	1.7	1.7	1.7	1.7
Other pension costs	1.0	1.0	1.0	1.0
Total employee costs	**21.0**	**20.7**	**21.0**	**20.7**
Premises and facilities	2.1	3.1	2.1	3.1
IT	6.0	5.6	6.0	5.5
Marketing and advertising	1.0	1.0	1.0	1.0
Lease costs	0.3	0.4	0.3	0.4
Other administrative costs	6.1	4.5	6.1	4.5
	36.5	**35.3**	**36.5**	**35.2**

There were no restructuring costs relating to continuing operations included in wages and salaries for the Group and Society in 2021 (2020: £0.8m).

	Group 2021 £m	Group 2020 £m
Discontinued operations		
Wages and salaries	0.5	1.7
Social security costs	-	0.1
Other pension costs	-	0.1
Total employee costs	**0.5**	**1.9**
Marketing and advertising	-	0.1
Other administrative costs	0.3	1.0
	0.8	**3.0**

	Group 2021 £000	Group 2020 £000	Society 2021 £000	Society 2020 £000
Other administrative costs include:				
Remuneration of auditors and associates (excluding VAT)				
Fees payable to the auditor for the audit of the annual accounts	358	245	353	245
Fees payable to the auditor for other services:				
Audit of the accounts of subsidiary undertakings	8	43	-	-
Audit of associated pension schemes	14	13	14	13
Audit related assurance services	60	58	60	58
Non-audit services	25	-	25	-
Total audit fees for the financial year	**465**	**359**	**452**	**316**

7. EMPLOYEES

	Group 2021 Number	Group 2020 Number	Society 2021 Number	Society 2020 Number
Continuing operations				
The average number of persons employed during the year was:				
Full time	388	414	388	414
Part time	149	175	149	175
	537	**589**	**537**	**589**
Building Society				
Central Administration	299	293	299	293
Branches	238	296	238	296
	537	**589**	**537**	**589**

The average number of employees on a full time equivalent basis in the Society was 510 (2020: 532) and all of these are employed within the United Kingdom.

	Group 2021 Number	Group 2020 Number
Discontinued operations		
The average number of employees employed during the year was:		
Full time	11	35
Part time	2	9
	13	**44**
Subsidiaries	**13**	**44**

ACCOUNTS

8. TAX CHARGE/(CREDIT)

		Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Current tax charge/(credit)		0.9	0.3	0.9	0.3
Adjustments for prior years		0.4	(0.6)	0.4	(0.6)
TOTAL CURRENT TAX		**1.3**	**(0.3)**	**1.3**	**(0.3)**
Deferred tax		1.7	(1.5)	1.7	(1.6)
Adjustments for prior years		(0.5)	0.6	(0.5)	0.6
TOTAL DEFERRED TAX	20	**1.2**	**(0.9)**	**1.2**	**(1.0)**
		2.5	**(1.2)**	**2.5**	**(1.3)**

The total tax charge/(credit) for the period differs from that calculated using the UK standard rate of corporation tax. The differences are explained below.

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit/(loss) before taxation	15.1	(8.4)	13.7	(7.7)
Expected tax charge/(credit) at 19% (2020: 19%)	2.9	(1.6)	2.6	(1.5)
Expenses not deductible for corporation tax	0.2	0.2	0.3	0.4
Amounts not recognised	-	0.2	-	-
Effective securitisation	(0.4)	0.1	-	-
Income not taxable	(0.1)	(0.1)	(0.3)	(0.2)
Adjustment for prior years	(0.1)	-	(0.1)	-
	2.5	**(1.2)**	**2.5**	**(1.3)**

NOTES TO THE ACCOUNTS (CONTINUED)

8. TAX CHARGE/(CREDIT) (CONTINUED)

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Tax recognised directly in other comprehensive income				
Tax on FVOCI assets	(0.2)	-	(0.2)	-
Tax on pension scheme	(0.3)	(0.8)	(0.3)	(0.8)
TAX CREDIT FOR THE YEAR	**(0.5)**	**(0.8)**	**(0.5)**	**(0.8)**

The tax impact of discontinued operations is immaterial to the financial statements. The adjustments for prior years are impacted by timing of Research and Development claims.

Factors affecting standard rate of tax

The Finance Act 2021, which was enacted in May 2021, will increase the rate of tax from 19% to 25% with effect from 1 April 2023. Deferred tax assets and liabilities are measured at whichever of the enacted tax rates are expected to apply when the related asset is realised or liability is settled.

9. CASH IN HAND AND BALANCES WITH THE BANK OF ENGLAND

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash in hand	1.5	1.6	1.5	1.6
Balances with the Bank of England	284.6	373.3	284.6	373.3
	286.1	**374.9**	**286.1**	**374.9**

Balances with the Bank of England includes cash ratio deposits of £6.9 million (2020: £6.2 million) which are not readily available for use in the Group's day-to-day operations and therefore are excluded from cash and cash equivalents.

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Repayable on call and short notice	8.0	13.3	-	0.3
Other loans and advances to credit institutions	8.1	51.2	8.1	51.2
	16.1	**64.5**	**8.1**	**51.5**

As at 31 December 2021 £8.1 million (2020: £51.2 million) of cash has been deposited by the Group and Society as collateral against derivative contracts.

11. CASH AND CASH EQUIVALENTS

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash in hand and balances with the Bank of England	279.2	368.7	279.2	368.7
Loans and advances to credit institutions	8.0	13.3	-	0.3
	287.2	**382.0**	**279.2**	**369.0**

12. DEBT SECURITIES

Group and Society	Notes	2021 £m	2020 £m
Debt securities			
Gilts		39.6	10.0
Fixed rate notes		34.1	8.1
Floating rate notes		70.6	70.6
Mortgage backed securities		61.5	46.7
Floating covered bonds		54.5	17.4
		260.3	**152.8**
Movements on debt securities during the year may be analysed as follows:			
As at 1 January		152.8	306.6
Additions		168.2	61.7
Disposals and maturities		(60.4)	(215.9)
Net gains from changes in fair value recognised in other comprehensive income	30	(0.3)	0.4
		260.3	**152.8**

Of this total £73.7 million (2020: £18.1 million) is attributable to fixed income debt securities.

Debt securities include items with a carrying value of £nil (2020: £nil) which have been pledged as collateral under Bank of England facilities.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2021 Contract/ notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m	2020 Contract/ notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m
Derivatives not in hedge accounting relationship						
Interest rate swaps	1,525.1	3.1	(0.1)	669.4	0.4	(1.0)
Derivatives designated as fair value hedges						
Interest rate swaps	2,065.0	23.0	(6.4)	2,173.0	0.4	(31.5)
	3,590.1	**26.1**	**(6.5)**	**2,842.4**	**0.8**	**(32.5)**

Society	2021 Contract/ notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m	2020 Contract/ notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m
Derivatives not in a hedge accounting relationship						
Interest rate swaps	1,378.6	1.0	(0.1)	464.7	0.4	(0.6)
Derivatives designated as fair value hedges						
Interest rate swaps	2,065.0	23.0	(6.4)	2,173.0	0.4	(31.5)
	3,443.6	**24.0**	**(6.5)**	**2,637.7**	**0.8**	**(32.1)**

Further information regarding the Group's hedge accounting and fair value hedges is presented in note 31 on page 109.

NOTES TO THE ACCOUNTS (CONTINUED)

14. LOANS AND ADVANCES TO CUSTOMERS

Group and Society	Notes	2021 £m	2020 £m
Loans fully secured on residential property		2,800.2	2,942.1
Other loans fully secured on land		232.6	164.1
		3,032.8	3,106.2
Provision for impairment losses on loans and advances	15	(3.1)	(4.5)
		3,029.7	3,101.7
Fair value adjustment for hedged risk		(18.8)	26.3
		3,010.9	**3,128.0**

Other loans fully secured on land represents Secured Business Lending (SBL) assets.

Encumbrance

The Society pledges a proportion of its loans and advances to customers to enable it to access funding either through a secured funding arrangement or as whole mortgage loan pools with the Bank of England.

Loans and advances to customers used to support these funding activities are as follows:

Group and Society 2021	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	1,089.0	-	443.9	645.1
Other secured funding	147.6	147.6	-	-
	1,236.6	**147.6**	**443.9**	**645.1**

Group and Society 2020	Mortgages pledged £m	Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m
Bank of England	1,404.6	-	582.9	821.7
Other secured funding	207.1	207.1	-	-
	1,611.7	**207.1**	**582.9**	**821.7**

Other secured funding

As at 31 December 2021, loans and advances to customers also includes balances for both the Group and Society which have been used in secured funding arrangements, resulting in the beneficial interest of these loans being transferred to Arrow Mortgage Finance No.1 Limited, a special purpose vehicle consolidated into the Group Accounts. All of the loans pledged are retained within the Society's Statement of Financial Position as the Society retains substantially all the risk and rewards relating to the loans. These loans secure £127.1 million (2020: £191.2 million) of funding for the Group (note 25).

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Impairment provisions have been deducted from the appropriate asset values on the Statement of Financial Position. The gross carrying amounts and impairment provisions are presented in detail below.

Group and Society	Notes	Loans fully secured on residential property 2021 £m	Other loans fully secured on land 2021 £m	Total 2021 £m	Loans fully secured on residential property 2020 £m	Other loans fully secured on land 2020 £m	Total 2020 £m
Gross carrying amount							
Stage 1		2,666.7	215.1	2,881.8	1,807.4	106.0	1,913.4
Stage 2		117.3	16.5	133.8	1,127.0	56.9	1,183.9
Stage 3		16.2	1.0	17.2	7.7	1.2	8.9
	14	**2,800.2**	**232.6**	**3,032.8**	**2,942.1**	**164.1**	**3,106.2**

Group and Society	Loans fully secured on residential property 2021 £m	Other loans fully secured on land 2021 £m	Total 2021 £m	Loans fully secured on residential property 2020 £m	Other loans fully secured on land 2020 £m	Total 2020 £m
Expected Credit Loss allowance						
Stage 1	1.4	0.8	2.2	0.5	1.5	2.0
Stage 2	0.2	0.5	0.7	1.1	0.7	1.8
Stage 3	0.1	0.1	0.2	0.2	0.5	0.7
	1.7	**1.4**	**3.1**	**1.8**	**2.7**	**4.5**

The ECL allowance recognised against the Society's future loan commitment balance at 31 December 2021 and 2020 is immaterial to the financial statements and therefore has not been separately disclosed. Future loan commitments are classified as Stage 1 for ECL calculation purposes under IFRS 9.

The underlying credit risk in the mortgage portfolio remains largely consistent against the prior year with some marginal improvements seen in forecasts impacting economic assumptions. The overall level of ECL allowance has fallen due to reducing and changing uncertainty regarding the pandemic, which is outlined in the post model adjustment section on page 76 alongside the transfer of the limited company BTL portfolio into its own separate model. The updated models are also now more responsive to economic scenarios and less reliant on GDP as an input.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

At 31 December 2021, 4% (31 December 2020: 38%) of the gross carrying amounts are included within the stage 2 category of the ECL models. During the year, the Society has invested in model redevelopment, which has improved the sensitivity in Significant Increase in Credit Risk (SICR) criteria when applying IFRS 9 and has reshaped the staging profile of the portfolio resulting in significant movement out of stage 2 and into stage 1. As detailed in the accounting policies (note 1) , this refinement is a change in key assumption within the calculation of ECL allowance and has been accounted for as a change in accounting estimate. In the prior periods, the Society included a doubling (retail)/ tripling (SBL) of lifetime probability of default since origination with a 1% floor within its SICR definition. The Society now applies a relative and absolute threshold when considering whether the change in probability of default indicates that individual loans should move into stage 2. The Society only participates in the prime mortgage lending market, and within the residential loan category in particular, this results in a very low Probability of Default (PD) at origination. Any slight deterioration in a customer's PD can impact the move in staging of the loan, but has limited impact on the level of ECL due to the high collateral value of the portfolio. The implementation of a relative and absolute threshold within the model has improved this movement in staging sensitivity.

The Society's ECL coverage ratio, as a percentage of gross loans is 0.10% at 31 December 2021 for the total book and 0.52% for those balances in stage 2. The equivalent ECL coverage ratios at 31 December 2020 were 0.14% across the total portfolio and 0.15% for stage 2 assets.

The Society has a high quality mortgage book, with a very low probability of default at origination and very low levels of default experience. The ongoing Covid-19 pandemic is driving a continued level of uncertainty in the ECL allowance and the expected losses that may flow from this. As a consequence, management have modelled a stress of the PD model at 31 December 2021 to recognise this expected lag, as detailed in the post model adjustment section below.

At 31 December 2021, £4.4m of balances were over 3 months in arrears (2020: £5.1 million), representing 0.2% of the total mortgage book (2020: 0.2%). As at 31 December 2021, 0.4% (2020: 0.4%) of mortgage customers have some sort of contractual forbearance arrangement in place. The vast majority of the over 3,000 customers who were granted payment deferrals as a result of the Government's response to the Covid-19 disruption have returned to a fully paying position and continue to service their mortgages. Further details of the Society's arrears and forbearance cases are disclosed in note 31 on pages 102 and 104.

Post model adjustment

Due to the level of uncertainty in the economy, at 31 December 2021, the Society has applied a stress of PD to its core ECL models to reflect management's view that there will be an impact on affordability as a result of global inflationary pressures and anticipated rate rises to manage inflation. As a result of this PD stress, an overlay ECL allowance of £2.0m has been recognised at 31 December 2021. This is calculated within the core underlying models with an absolute 6% stressed PD uplift applied to the modelled retail PD assumptions and 4% to the SBL PD assumptions. The stress scenario recognises £1.8m of ECL in stage 1 and £0.2m in stage 2 of the retail portfolio. A further 1% shift in PD assumptions adjusts the ECL position by £0.2m.

At 31 December 2020, the Society recognised a post model adjustment of £2.7m for a stressed scenario to its core ECL models to reflect management's view that there would be a delay in recovery of unemployment position and underlying GDP, alongside the potential for increased forced sale discount on collateral held. Due to improvements seen in HPI forecasts and unemployment in 2021, this post model adjustment is not applicable at 31 December 2021.

The (release)/charge to the income statement comprises:

Group and Society	2021 Loans fully secured on residential property £m	2021 Other loans fully secured on land £m	2021 Total £m	2020 Loans fully secured on residential property £m	2020 Other loans fully secured on land £m	2020 Total £m
(Release)/charge of provision for impairment	(0.1)	(1.3)	(1.4)	1.3	1.6	2.9
Recoveries of debts previously written off	-	-	-	-	-	-
	(0.1)	**(1.3)**	**(1.4)**	**1.3**	**1.6**	**2.9**

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The tables below reconcile the movement in both gross balances and expected credit losses in the period.

Gross balances	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	1,913.4	1,183.9	8.9	3,106.2
Stage transfers:				
Transfers from stage 1 to stage 2	(44.7)	44.7	-	-
Transfers to stage 3	(3.9)	(8.1)	12.0	-
Transfers from stage 2 to stage 1	923.1	(923.1)	-	-
Transfers from stage 3	2.1	0.8	(2.9)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**876.6**	**(885.7)**	**9.1**	**-**
New assets originated[2]	494.6	34.0	1.1	529.7
Net further lending/repayments and redemptions	(402.8)	(198.4)	(1.9)	(603.1)
At 31 December 2021	**2,881.8**	**133.8**	**17.2**	**3,032.8**

Expected Credit Loss allowance	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2021	2.0	1.8	0.7	4.5
Stage transfers:				
Transfers from stage 1 to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1[1]	1.1	(1.1)	-	-
Transfers from stage 3	0.1	0.1	(0.2)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**1.2**	**(1.0)**	**(0.2)**	**-**
New assets originated[2]	0.5	0.1	-	0.6
Further lending/repayments and redemptions	(0.8)	(0.1)	-	(0.9)
Changes in risk parameters in relation to credit quality	(0.7)	(0.1)	(0.3)	(1.1)
At 31 December 2021	**2.2**	**0.7**	**0.2**	**3.1**

[1] Transfers from stage 2 to stage 1 in the period is impacted by the refinement of SICR criteria as outlined on page 76.

[2] New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2021.

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross balances	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	2,471.0	676.8	5.8	3,153.6
Stage transfers:				
Transfers from stage 1 to stage 2[1]	(737.1)	737.1	-	-
Transfers to stage 3	(1.6)	(4.5)	6.1	-
Transfers from stage 2 to stage 1	115.2	(115.2)	-	-
Transfers from stage 3	0.3	1.5	(1.8)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**(623.2)**	**618.9**	**4.3**	**-**
New assets originated[2]	447.1	24.1	0.7	471.9
Net further lending/repayments and redemptions	(381.5)	(135.9)	(1.9)	(519.3)
At 31 December 2020	**1,913.4**	**1,183.9**	**8.9**	**3,106.2**

Expected Credit Loss allowance	Subject to 12 month ECL Stage 1 £m	Non-credit impaired Subject to lifetime ECL Stage 2 £m	Credit impaired Subject to lifetime ECL Stage 3 £m	Total £m
At 1 January 2020	0.1	0.7	0.8	1.6
Stage transfers:				
Transfers from stage 1 to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Transfers from stage 2 to stage 1	0.1	(0.1)	-	-
Transfers from stage 3	-	0.1	(0.1)	-
NET MOVEMENT ARISING FROM TRANSFER OF STAGE	**0.1**	**-**	**(0.1)**	**-**
New assets originated[2]	0.3	-	-	0.3
Further lending/repayments and redemptions	-	-	(0.1)	(0.1)
Changes in risk parameters in relation to credit quality	1.5	1.1	0.1	2.7
At 31 December 2020	**2.0**	**1.8**	**0.7**	**4.5**

[1] The level of gross loan transfers from stage 1 to stage 2 in the period is impacted by the highly sensitive models and 1% floor within its SICR criteria.

[2] New assets originated enter at stage 1. The balances presented are the final position as at 31 December 2020.

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information, which takes into account key economic impacts such as the Covid-19 pandemic. Key economic variables have been determined by management, but expert judgement is also applied. Forecasts of these economic variables are provided by a reputable third party, providing a best estimate view of the economy over the next five years. After five years, a mean reversion approach is used, i.e. long-run averages.

In addition to the base economic scenario forecast, other possible scenarios along with scenario weightings are obtained, of which management have applied four scenarios in the model calculations. In the prior year, the Society applied a three scenario approach, with weightings of 43% (base), 30% (upside) and 27% (downside) applied. These scenarios continue to be consistently provided by a reputable third party.

	Weighting
Base The base economic scenario assumes that Covid-19 infections peaked in January 2021, with infections abating by February 2022. Due to the timing of the scenario, Delta was assumed the dominant strain, but that Omicron would soon take over as dominant. The scenario assumes that existing vaccines would be less effective against Omicron, with measures being reimposed, such as the use of face masks, but that a fourth lockdown is unlikely. The scenario assumes unemployment spikes in Q2 2022 and that inflation accelerates as the economy reopens along with an energy cost crisis. Interest rate rises by the Bank of England in early 2022 are then assumed to manage inflation.	40%
Upside The upside scenario assumes that the vaccine is partly effective against the latest Omicron variant and infections abate in January 2022. The resulting cases, hospitalisations and deaths from Covid-19 reduce faster than the base scenario. Higher growth than the base case gives a lower unemployment rate and a higher GDP in the long-term due to increased household wealth leading to higher consumer spending. The UK and EU extend negotiations for free trade and access to the single market faster than in the base scenario.	30%
Downside The downside scenario assumes that the vaccines are a lot less effective against the Omicron variant, resulting in a severe shock to the economy. Infections do not abate until May 2022. Restrictions are imposed for sustained period, although there is low compliance. This results in contractions in GDP due to lack of consumer confidence and spending. Unemployment reaches a peak of 6.7% in Q2 2023 and the bank base rate remains at 0.1% until Q3 2025. Tensions rise between China and the US and a trade deal is not agreed between the UK and the EU.	23%
Severe downside The severe downside scenario assumes that vaccines are less effective than the downside and it takes longer to develop and roll out a successful updated vaccine. This means that the Government reintroduces restrictions, which remain in place until Spring 2022 due to non-compliance. Infections do not abate until July 2022. The fear of Covid-19 restricts spending on goods and services, resulting in bankruptcies and a spike in unemployment, rising to 7.7% in Q2 2023, as well as a contraction in GDP during 2022. The unemployment rate spike pushes down the average house significantly, increasing non performing loans. The bank base rate remains at 0.1% until Q3 2028. Tensions rise between China and the US and a trade deal is not agreed between the UK and EU.	7%

NOTES TO THE ACCOUNTS (CONTINUED)

15. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The summary below outlines the most significant forward-looking assumptions under IFRS 9, over the five year planning period across the optimistic, base and pessimistic scenarios.

As at 31 December 2021		2022 %	2023 %	2024 %	2025 %	2026 %
Unemployment rate	Upside	3.9	3.3	3.5	3.8	4.0
	Base	4.7	4.4	4.4	4.5	4.5
	Downside	6.3	6.6	6.5	6.3	5.9
	Severe downside	7.2	7.5	7.2	7.1	6.6
House price index	Upside	14.2	8.5	4.8	2.1	0.7
	Base	3.4	6.0	5.2	3.7	2.0
	Downside	(9.8)	(8.1)	(1.9)	4.4	8.3
	Severe downside	(13.4)	(10.3)	(2.5)	4.3	7.7
BoE interest rate	Upside	0.6	1.0	1.5	2.1	2.6
	Base	0.5	0.8	1.2	1.7	2.2
	Downside	0.1	0.1	0.1	0.2	0.7
	Severe downside	0.1	0.1	0.1	0.1	0.1

A significant degree of estimation relates to the relative weightings of the economic scenarios. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the 31 December 2021 reported ECL position output is shown below.

31 December 2021	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	3.1	-	-
Base	2.8	(0.3)	(9.7)%
Downside	4.0	0.9	29.0%
Severe downside	4.5	1.4	45.2%
Upside	2.3	(0.8)	(25.8)%

31 December 2020	ECL provision £m	(Decrease)/ increase £m	(Decrease)/ increase %
IFRS 9 weighted average	4.5	-	-
Base	4.2	(0.3)	(6.7)%
Downside	5.4	0.9	20.0%
Upside	4.1	(0.4)	(8.9)%

As outlined on page 62, the Society has moved to a four economic scenario approach as part of its core model redevelopment completed during 2021.

16. AMOUNTS DUE FROM SUBSIDIARY UNDERTAKINGS

Society	2021 Shares £m	2021 Amount due £m	2020 Shares £m	2020 Amount due £m
As at 1 January	-	26.6	-	20.3
Additions/(repayments)	-	(1.1)	-	6.7
Change in fair value	-	1.1	-	(0.4)
	-	**26.6**	-	**26.6**

The Society has the following subsidiary undertakings which all operate and have a registered office in the United Kingdom and are included in the Group accounts:

Name of subsidiary undertaking	Principal business activity	Registration number	Ownership interest
Arrow Mortgage Finance No. 1 Limited	Funding vehicle	09891174	See below
Harrison Murray Ltd	Estate Agency and related services	03190376	100%
HM Lettings Ltd	Lettings	08333273	100%
Nottingham Property Services Ltd	Estate Agency and related services	02272731	100%
The Mortgage Advice Centre (East Midlands) Ltd	Dormant	08313266	100%

The registered office of Arrow Mortgage Finance No. 1 Limited is 1 Bartholomew Lane, London, EC2N 2AX. The registered office address for all other subsidiary companies listed above is detailed in note 37. All subsidiary entities are incorporated in England and Wales.

Harrison Murray Ltd, HM Lettings Ltd and Nottingham Property Services Ltd are exempt from the requirements of audit of the individual financial statements under Section 479A of the Companies Act 2006.

The special purpose vehicle (SPV), Arrow Mortgage Finance No. 1 Limited, has been formed with nominal share capital, is funded through loans from the Society and its activities are carried out under the direction of the Society, under the legal terms of its operation. The Society is exposed to variable returns from this entity and therefore the SPV passes the test of control under IFRS 10. Consequently it is fully consolidated into the Group Accounts.

The amounts due from Arrow Mortgage Finance No. 1 Ltd have a contractual maturity of less than one year and are expected to be repaid within this period in line with the secured funding term. The amount due from Arrow is classed as Stage 1 for ECL calculation purposes under IFRS 9 and the ECL arising is immaterial to the financial statements.

All other intercompany balances have no fixed date of repayment and are recognised at fair value through profit or loss. The directors have reviewed the recoverability of outstanding balances with subsidiary undertakings and therefore the fair value as at 31 December 2021 and a change in fair value gain of £1.1m has been recognised in the year (2020: £0.4m loss).

Details of the balances outstanding with subsidiary undertakings are disclosed in the related party transactions note 33.

In July 2021, the Society disposed of its 100% owned mortgage broking subsidiary, Nottingham Mortgage Services Ltd and received sale proceeds of £0.7m. The entity's results until disposal, are included within the Group's performance as discontinued operations (note 34).

During the prior year, the Group decided to exit the delivery of estate agency services and move to a alliance arrangement to deliver such services in the future, resulting in the closure to new business. As a result the trade and operations of Harrison Murray Ltd, Nottingham Property Services Ltd and HM Lettings Ltd are in the process of final wind down at 31 December 2021. During the year, the Society has formally waived the right to recover any residual intercompany balances outstanding with its legacy estate agency subisidiary entities. As the balances were fair valued to nil, there is no further impact to the financial statements.

NOTES TO THE ACCOUNTS (CONTINUED)

17. PROPERTY, PLANT AND EQUIPMENT

	Group			Society		
2021	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**
Cost						
As at 1 January 2021	16.3	26.8	43.1	14.3	26.1	40.4
Additions	0.1	1.3	1.4	0.1	1.3	1.4
Transfer between group	-	-	-	0.7	-	0.7
Disposals	(0.7)	(0.1)	(0.8)	(0.4)	(0.1)	(0.5)
As at 31 December 2021	**15.7**	**28.0**	**43.7**	**14.7**	**27.3**	**42.0**
Depreciation						
As at 1 January 2021	9.8	22.4	32.2	8.7	21.7	30.4
Charge for the year	0.3	1.6	1.9	0.3	1.6	1.9
On disposals	(0.3)	(0.1)	(0.4)	(0.2)	(0.1)	(0.3)
As at 31 December 2021	**9.8**	**23.9**	**33.7**	**8.8**	**23.2**	**32.0**
Net Book Value						
As at 31 December 2021	**5.9**	**4.1**	**10.0**	**5.9**	**4.1**	**10.0**

	Group			Society		
2020	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**	**Land and buildings £m**	**Equipment, fixtures, fittings £m**	**Total £m**
Cost						
As at 1 January 2020	16.5	25.6	42.1	14.5	24.9	39.4
Additions	-	1.2	1.2	-	1.2	1.2
Disposals	(0.2)	-	(0.2)	(0.2)	-	(0.2)
As at 31 December 2020	**16.3**	**26.8**	**43.1**	**14.3**	**26.1**	**40.4**
Depreciation						
As at 1 January 2020	9.6	20.4	30.0	8.4	19.8	28.2
Charge for the year	0.3	2.0	2.3	0.4	1.9	2.3
On disposals	(0.1)	-	(0.1)	(0.1)	-	(0.1)
As at 31 December 2020	**9.8**	**22.4**	**32.2**	**8.7**	**21.7**	**30.4**
Net Book Value						
As at 31 December 2020	**6.5**	**4.4**	**10.9**	**5.6**	**4.4**	**10.0**

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
The net book value of land and buildings comprises:				
Freehold	5.6	6.2	5.6	5.4
Short Leasehold	0.3	0.3	0.3	0.2
	5.9	**6.5**	**5.9**	**5.6**
The net book value of land and buildings occupied for own use:				
Building Society	5.5	5.3	5.5	5.3
Subsidiaries	-	0.9	-	-
Non - Group	0.4	0.3	0.4	0.3
	5.9	**6.5**	**5.9**	**5.6**

18. INTANGIBLE ASSETS

Group	2021 Purchased Software £m	2021 Developed Software £m	2021 Total £m	2020 Purchased Software £m	2020 Developed Software £m	2020 Total £m
Cost						
As at 1 January	8.1	31.1	39.2	7.9	30.7	38.6
Additions	0.3	8.3	8.6	0.2	0.4	0.6
As at 31 December	**8.4**	**39.4**	**47.8**	**8.1**	**31.1**	**39.2**
Amortisation and impairment						
As at 1 January	7.8	18.9	26.7	7.6	14.0	21.6
Charge for the year	0.1	4.2	4.3	0.2	4.9	5.1
As at 31 December	**7.9**	**23.1**	**31.0**	**7.8**	**18.9**	**26.7**
Net Book Value						
As at 31 December	**0.5**	**16.3**	**16.8**	**0.3**	**12.2**	**12.5**

ACCOUNTS

18. INTANGIBLE ASSETS (CONTINUED)

Society	2021 Purchased Software £m	2021 Developed Software £m	2021 Total £m	2020 Purchased Software £m	2020 Developed Software £m	2020 Total £m
Cost						
As at 1 January	8.0	31.1	39.1	7.8	30.7	38.5
Additions	0.3	8.3	8.6	0.2	0.4	0.6
As at 31 December	**8.3**	**39.4**	**47.7**	**8.0**	**31.1**	**39.1**
Amortisation						
As at 1 January	7.7	18.9	26.6	7.5	14.0	21.5
Charge for the year	0.1	4.2	4.3	0.2	4.9	5.1
As at 31 December	**7.8**	**23.1**	**30.9**	**7.7**	**18.9**	**26.6**
Net Book Value						
As at 31 December	**0.5**	**16.3**	**16.8**	**0.3**	**12.2**	**12.5**

At 31 December 2021, the Society has £nil (2020: £2.2m) held within other assets relating to assets under development in relation to the Society's digital technology platform, following capitalisation of the asset during the year.

19. LEASES

The statement of financial position shows the following amounts relating to leases:

Right of use assets 2021	Group Property £m	Group Equipment £m	Group Motor Vehicles £m	Group Total £m	Society Property £m	Society Equipment £m	Society Motor Vehicles £m	Society Total £m
Cost								
As at 1 January 2021	5.5	0.3	0.2	6.0	4.8	0.3	0.2	5.3
Additions	-	-	-	-	0.1	-	-	0.1
Disposals	(0.6)	-	-	(0.6)	-	-	-	-
As at 31 December 2021	**4.9**	**0.3**	**0.2**	**5.4**	**4.9**	**0.3**	**0.2**	**5.4**
Depreciation								
As at 1 January 2021	2.3	0.1	0.1	2.5	1.7	0.1	0.1	1.9
Charge for the year & impairment	0.4	0.1	0.1	0.6	0.4	0.1	0.1	0.6
On disposals	(0.6)	-	-	(0.6)	-	-	-	-
As at 31 December 2021	**2.1**	**0.2**	**0.2**	**2.5**	**2.1**	**0.2**	**0.2**	**2.5**
Net Book Value								
As at 31 December 2021	**2.8**	**0.1**	**-**	**2.9**	**2.8**	**0.1**	**-**	**2.9**

19. LEASES (CONTINUED)

Right of use assets 2020	Group Property £m	Group Equipment £m	Group Motor Vehicles £m	Group Total £m	Society Property £m	Society Equipment £m	Society Motor Vehicles £m	Society Total £m
Cost								
As at 1 January 2020	5.6	0.3	0.3	6.2	4.5	0.3	0.3	5.1
Additions	0.1	-	-	0.1	0.5	-	-	0.5
Disposals	(0.2)	-	(0.1)	(0.3)	(0.2)	-	(0.1)	(0.3)
As at 31 December 2020	**5.5**	**0.3**	**0.2**	**6.0**	**4.8**	**0.3**	**0.2**	**5.3**
Depreciation								
As at 1 January 2020	0.7	0.1	0.1	0.9	0.5	0.1	0.1	0.7
Charge for the year & impairment	1.7	-	-	1.7	1.3	-	-	1.3
On disposals	(0.1)	-	-	(0.1)	(0.1)	-	-	(0.1)
As at 31 December 2020	**2.3**	**0.1**	**0.1**	**2.5**	**1.7**	**0.1**	**0.1**	**1.9**
Net Book Value								
As at 31 December 2020	**3.2**	**0.2**	**0.1**	**3.5**	**3.1**	**0.2**	**0.1**	**3.4**

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Lease liabilities				
Current	0.5	0.6	0.5	0.5
Non-current	2.7	3.8	2.7	3.4
	3.2	**4.4**	**3.2**	**3.9**

The income statement shows the following amounts relating to leases:

	Note	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Depreciation charge for right-of-use assets		0.6	1.7	0.6	1.3
Interest expense (included in interest payable and similar charges)	4	0.1	0.1	0.1	0.1
Expense relating to short-term leases (included in administrative expenses)	6	0.3	0.4	0.3	0.4

The total cash outflow for leases in 2021 was £0.7m (2020: £0.9m) for the Group, of which £0.7m (2020: £0.7m) related to the Society.

Right of use lease assets of £0.2m have been transferred from Harrison Murray Ltd to the Society during the year. Subsequent to recognition in the Society, £0.1m of assets have been derecognised on surrender of the lease.

NOTES TO THE ACCOUNTS (CONTINUED)

20. DEFERRED TAX

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
As at 1 January	2.7	1.1	2.6	0.9
Adjustments in respect of prior periods	0.5	(0.6)	0.6	(0.6)
Charge to the income statement	(1.7)	1.5	(1.7)	1.6
Recognised directly in other comprehensive income	0.2	0.7	0.2	0.7
	1.7	**2.7**	**1.7**	**2.6**

The deferred tax charge/(credit) in the income statement comprises the following temporary differences:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Pensions and other post tax retirement benefits	0.1	0.1	0.1	0.1
Intangible assets	(0.4)	0.5	(0.4)	0.5
Other provisions	0.1	-	0.1	-
Tax losses	1.4	(1.5)	1.4	(1.6)
	1.2	**(0.9)**	**1.2**	**(1.0)**

Deferred income tax assets and liabilities as at 31 December are attributable to the following items:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Deferred tax assets				
Pensions and other post-retirement benefits	1.1	1.2	1.1	1.2
Property, plant and equipment	0.4	0.4	0.4	0.3
Fair value reserves	0.3	0.2	0.3	0.2
Other timing differences	0.1	0.1	0.1	0.1
Tax losses	0.2	1.6	0.2	1.6
	2.1	**3.5**	**2.1**	**3.4**
Deferred tax liabilities				
IFRS transitional adjustments	0.2	0.2	0.2	0.2
Intangibles	0.2	0.6	0.2	0.6
	0.4	**0.8**	**0.4**	**0.8**
Net deferred tax asset	**1.7**	**2.7**	**1.7**	**2.6**

Deferred tax liabilities have been offset against deferred tax assets in the statement of financial position in the current year as it is deemed that there is a legal right of offset.

The Society has recognised £0.2m (2020: £1.6m) of deferred tax assets relating to losses incurred in the financial year as it is more likely than not that future profitability will enable the recovery of such assets. There are no further assets for tax losses in the Group, which have not been recognised at 31 December 2021 (2020: £0.2m).

21. SHARES

Group and Society	2021 £m	2020 £m
Held by individuals	2,874.9	2,793.2
Fair value adjustment for hedged risk	(0.3)	1.0
	2,874.6	**2,794.2**

22. AMOUNTS OWED TO CREDIT INSTITUTIONS

Group and Society	2021 £m	2020 £m
Amounts owed to credit institutions	346.1	456.6
	346.1	**456.6**

23. AMOUNTS OWED TO OTHER CUSTOMERS

Group and Society	2021 £m	2020 £m
Demand accounts		
Retail customers	0.6	0.6
Other	0.3	0.4
	0.9	**1.0**
Term deposits		
Local Authorities	22.0	21.3
Other	-	12.6
	22.0	**33.9**
	22.9	**34.9**

24. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS

Society	2021 £m	2020 £m
At 1 January	205.2	77.2
Advance	-	155.4
Repayment	(60.0)	(27.4)
	145.2	**205.2**

The amounts owed to subsidiary undertakings represents a deemed loan as part of a secured funding balance. The repayment of the loan will follow the collection of the principal and interest of the underlying mortgage assets, which is contractually due to be settled within one year.

NOTES TO THE ACCOUNTS (CONTINUED)

25. DEBT SECURITIES IN ISSUE

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Senior secured debt	127.1	191.2	-	-
Certificates of deposit	-	2.5	-	2.5
	127.1	**193.7**	**-**	**2.5**

The underlying security for the senior secured debt are certain loans and advances to customers (see note 14 for further detail). The facility is due to mature in September 2022.

26. OTHER LIABILITIES AND ACCRUALS

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Trade creditors	0.4	1.0	0.4	1.0
Accruals and deferred income	3.2	2.8	3.2	2.4
Other creditors	2.7	1.9	2.7	1.9
	6.3	**5.7**	**6.3**	**5.3**

27. PROVISIONS FOR LIABILITIES

FSCS levy

Following the settlement of the loans outstanding from the 2008/09 banking failures, there are no further liabilities outstanding. Ongoing costs of the FSCS scheme are recognised in administrative expenses.

Customer redress and other related provisions

Other provisions have been made in previous periods in respect of various customer claims, including claims in relation to previous sales of payment protection insurance and endowment policies. The remaining liability at 31 December 2021 is immaterial to the financial statements.

Contingent liabilities

As a deposit taker, the Society continues to have obligations to the FSCS, as well as other contractual obligations to third party suppliers, which may create a financial obligation in future accounting periods.

28. RETIREMENT BENEFIT OBLIGATIONS

a) Defined benefit obligations

The Group operates a contributory defined benefit scheme, the assets of which are held in a separate trustee administered fund. The scheme closed to new members in 1997 and was closed for future service accrual from 31 January 2009.

The pension cost is assessed following the advice of a qualified independent actuary using the projected unit method. The latest funding review of the scheme was as at 31 March 2020. This review showed that the market value of the scheme assets as at 31 March 2020 was £55.3 million and that the actuarial value of those assets represented 86% of the benefits that had accrued to members after allowing for expected future increase in salaries.

An updated actuarial valuation at 31 December 2021 was carried out on a market value basis by a qualified independent actuary, as follows:

Group and Society	2021	2020
The principal actuarial assumptions used were as follows:		
Discount rate	1.85%	1.25%
Rate of increase in salaries	3.55%	3.05%
Rate of increase in pensions	3.70%	3.50%
Inflation	3.55%	3.05%
Post-retirement mortality	S3PMA_L for males, S3PFA for females tables with CMI 2019 projections using a long-term improvement rate of 1.25% p.a	S3PMA_L for males, S3PFA for females tables with CMI 2019 projections using a long-term improvement rate of 1.25% p.a

The assumptions applied follow the requirements of IAS 19, which are different to the technical valuation approach. This requires the discount rate to be benchmarked against AA corporate rated bonds, which as at 31 December 2021 were lower than the rate of inflation.

The table below shows the assumptions used for expected life at 31 December (normal retirement age of 62).

Group and Society	2021 Male Years	2021 Female Years	2020 Male Years	2020 Female Years
Expected life at retirement for a new pensioner	26.5	27.6	26.5	27.6
Expected life at retirement in 20 years' time	27.9	29.1	27.8	29.0

Approximate sensitivities of the principal assumptions are set out in the table below which shows the increase or reduction in the pension obligations that would result. Each sensitivity considers one change in isolation.

Group and Society	Change in assumption	2021 £m	2020 £m
Principal actuarial assumption			
Discount rate	+/- 0.25%	(2.7)	(3.2)
Rate of increase in salaries	+/- 0.25%	0.1	0.1
Rate of increase in pensions	+/- 0.25%	1.0	0.9
Mortality age adjustment	+/- 0.25%	0.6	0.7
Inflation	+/- 0.25%	1.2	1.2

NOTES TO THE ACCOUNTS (CONTINUED)

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Group and Society	2021 £m	2020 £m
Fair value of scheme assets:		
As at 1 January	65.6	60.1
Interest on pension scheme assets	0.8	1.2
Contributions by employer	1.5	1.5
Benefits paid	(2.1)	(3.1)
Expenses paid by trustees	-	-
Gain on asset returns	1.9	5.9
As at 31 December	**67.7**	**65.6**
Present value of defined benefit obligations:		
As at 1 January	(68.8)	(60.0)
Past service cost	-	-
Interest on pension scheme liabilities	(0.8)	(1.3)
Benefits paid	2.1	3.1
Experience gain on liabilities	-	0.5
Changes in demographic assumptions	-	(2.2)
Gain on changes in financial assumptions	4.1	(8.9)
As at 31 December	**(63.4)**	**(68.8)**
Surplus/(deficit) in scheme at 31 December	**4.3**	**(3.2)**
Impact of asset ceiling	(8.7)	(2.7)
LIABILITY IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER	**(4.4)**	**(5.9)**

In recognising the net surplus or deficit of the pension scheme, the funded status of the scheme is adjusted to reflect the funding requirement agreed by the sponsor alongside the rights of any return of surplus, with the recognition of an asset ceiling liability. The actual return on plan assets was a gain of £2.7 million (2020: £7.1 million gain).

The major categories of plan assets are as follows:

Group and Society	2021 £m	2020 £m
Investments quoted in active market		
Listed equity investments	15.0	12.3
Multi asset growth	16.1	14.9
High yield credit	16.2	15.9
Cash and cash equivalent	4.0	4.8
Unquoted investments		
Liability driven investments	15.0	16.1
Secured pensioners	1.4	1.6
Fair value of scheme assets	**67.7**	**65.6**

Amounts recognised in finance cost in the income statement:	2021 £m	2020 £m
Interest cost	(0.8)	(1.3)
Interest on pension scheme assets	0.8	1.2
	-	**(0.1)**

The movement in the liability recognised in the statement of financial position is as follows:

Group and Society	2021 £m	2020 £m
Opening defined benefit obligation at 1 January	(5.9)	(3.4)
Amount recognised in the income statement	-	(0.1)
Employer contributions	1.5	1.5
Remeasurement gains/(losses)	-	(3.9)
Closing defined benefit obligation as at 31 December	**(4.4)**	**(5.9)**

28. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The amount recognised in the statement of other comprehensive income for remeasurement gains and losses is as follows:

Group and Society	2021 £m	2020 £m
Actual return less expected return on plan assets	1.9	5.9
Experience loss arising on scheme liabilities	-	0.5
Changes in assumptions underlying the present value of the scheme liabilities	4.1	(8.9)
Change in demographic assumptions	-	(2.2)
Change in impact of asset ceiling	(6.0)	0.8
Remeasurement of defined benefit obligation	**-**	**(3.9)**

The average duration of the defined benefit obligation as at 31 December 2021 is 16 years (2020: 16 years). This number can be analysed as follows:

Group and Society	2021 Years	2020 Years
Active members	21	22
Deferred members	21	22
Retired members	13	13

During the year, the Group made contributions of £1.5 million (2020: £1.5 million) as part of its funding plan. The Group and Society have committed to contribute £1.5 million in 2022 under the agreed funding plan.

b) Defined contribution obligations

The Group also operates contributory defined contribution schemes. The assets of these schemes are held separately from those of the Group.

The pension charge for the period represents contributions payable by the Group and Society to the schemes and amounted for the continuing Group to £1.0 million (2020: £1.0 million) and for the Society £1.0 million (2020: £1.0 million). There were no outstanding or prepaid contributions at either the beginning or end of the year.

ACCOUNTS

29. SUBSCRIBED CAPITAL

Group and Society	2021 £m	2020 £m
7.875% sterling permanent interest bearing shares	23.9	23.9
Fair value adjustment for hedged risk	0.1	0.3
	24.0	**24.2**

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. PIBS holders do not have any right to a residual interest in the Society.

30. FAIR VALUE RESERVES

Group and Society	FVOCI reserve 2021 £m	FVOCI reserve 2020 £m
At 1 January	-	(0.4)
Net (charge)/gain from changes in fair value	(0.1)	0.4
	(0.1)	**-**

31. FINANCIAL INSTRUMENTS

Classification & Measurement

A financial instrument is a contract that gives rise to a financial asset or financial liability. Nottingham Building Society is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The Board Risk Committee (BRC) is tasked with monitoring the Group's overall exposure to risk, supported by the Executive Risk Committee (ERC). Six sub committees, the Assets and Liabilities Committee (ALCO), Retail Credit Committee (RCC), Model Governance (MGC), Operational Risk & Resilience Committee (ORRC), Legal, Regulatory & Conduct Risk Committee (LRC), and the Reinvention Committee (RC) monitor the individual areas of risk and report to the Board Risk Committee quarterly.

The ALCO, monitors statement of financial position risks (including the use of derivative financial instruments), funding and liquidity in line with the Group's prudent policy statements as well as wholesale credit risk. The Retail Credit Committee ensures that the management of credit risk is consistent with the credit risk appetite statement.

Key performance indicators are provided to the Executive Risk Committee and Board monthly by the ALCO and Retail Credit Committee.

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

The objective of the Group in using derivatives is in accordance with the Building Societies Act 1986 and is to limit the extent to which the Group will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes.

The derivative instruments used by the Group in managing its statement of financial position risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate wholesale funding. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium-term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

The Group applies portfolio fair value hedging techniques to reduce its exposure to interest rate risk as follows:

Hedged item	Risk	Fair value interest rate hedge
Fixed rate mortgage	Increase in interest rates	Group pays fixed, receives variable
Fixed rate savings bond	Decrease in interest rates	Group receives fixed, pays variable
Fixed rate funding	Decrease in interest rates	Group receives fixed, pays variable

The fair values of these hedges as at 31 December 2021 are shown in note 13.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Below are the summary terms and conditions and accounting policies of financial instruments held by the Group. These are the same for the Society, except for intercompany balances, which are accounted for at fair value through profit and loss.

Financial instrument	Terms and conditions	Accounting policy: IFRS 9
Loans and advances to credit institutions	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Debt securities	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Fair value through other comprehensive income Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard maximum contractual term of 25 years Fixed or variable rate interest	Amortised cost Accounted for at settlement date
Shares	Variable term Fixed or variable interest rates	Amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Amounts owed to other customers	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Debt securities in issue	Fixed or reference linked interest rate Fixed term Short to medium-term maturity	Amortised cost Accounted for at settlement date
Subscribed capital	Fixed interest rate Issued for indeterminate period Only repayable upon winding up of the Society	Amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest received/paid converted to variable interest paid/received Based on notional value of the derivative	Fair value through profit and loss Accounted for at trade date

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

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

Carrying values by category	Held at amortised cost	Held at fair value			
Group **As at 31 December 2021**	Financial assets and liabilities at amortised cost **£m**	Fair value through other comprehensive income **£m**	Derivatives designated as fair value hedges **£m**	Unmatched derivatives **£m**	Total **£m**
Financial assets					
Cash in hand and balances with the Bank of England	286.1	-	-	-	286.1
Loans and advances to credit institutions	16.1	-	-	-	16.1
Debt securities	-	260.3	-	-	260.3
Derivative financial instruments	-	-	23.0	3.1	26.1
Loans and advances to customers	3,010.9	-	-	-	3,010.9
Other assets	35.3	-	-	-	35.3
	3,348.4	**260.3**	**23.0**	**3.1**	**3,634.8**
Financial liabilities					
Shares	2,874.6	-	-	-	2,874.6
Amounts owed to credit institutions	346.1	-	-	-	346.1
Amounts owed to other customers	22.9	-	-	-	22.9
Debt securities in issue	127.1	-	-	-	127.1
Derivative financial instruments	-	-	6.4	0.1	6.5
Subscribed capital	24.0	-	-	-	24.0
Other liabilities	14.5	-	-	-	14.5
	3,409.2	**-**	**6.4**	**0.1**	**3,415.7**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Classification & Measurement (continued)

Carrying values by category	Held at amortised cost	Held at fair value			
Group As at 31 December 2020	Financial assets and liabilities at amortised cost £m	Fair value through other comprehensive income £m	Derivatives designated as fair value hedges £m	Unmatched derivatives £m	Total £m
Financial assets					
Cash in hand and balances with the Bank of England	374.9	-	-	-	374.9
Loans and advances to credit institutions	64.5	-	-	-	64.5
Debt securities	-	152.8	-	-	152.8
Derivative financial instruments	-	-	0.4	0.4	0.8
Loans and advances to customers	3,128.0	-	-	-	3,128.0
Other assets	37.4	-	-	-	37.4
	3,604.8	**152.8**	**0.4**	**0.4**	**3,758.4**
Financial liabilities					
Shares	2,794.2	-	-	-	2,794.2
Amounts owed to credit institutions	456.6	-	-	-	456.6
Amounts owed to other customers	34.9	-	-	-	34.9
Debt securities in issue	193.7	-	-	-	193.7
Derivative financial instruments	-	-	31.5	1.0	32.5
Subscribed capital	24.2	-	-	-	24.2
Other liabilities	16.0	-	-	-	16.0
	3,519.6	**-**	**31.5**	**1.0**	**3,552.1**

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at amortised cost

The table below analyses the book and fair values of the Group's financial instruments held at amortised cost at 31 December:

Group		2021 Book value £m	2021 Fair value £m	2020 Book value £m	2020 Fair value £m
Financial assets					
Cash in hand and balances with the Bank of Engand	a	286.1	286.1	374.9	374.9
Loans and advances to credit institutions	b	16.1	16.1	64.5	64.5
Loans and advances to customers	c	3,010.9	3,029.3	3,128.0	3,119.3
Financial liabilities					
Shares	d	2,874.6	2,879.9	2,794.2	2,791.9
Amounts owed to credit institutions	d	346.1	346.1	456.6	456.6
Amounts owed to other customers	d	22.9	22.8	34.9	34.9
Debt securities in issue	e	127.1	127.1	193.7	193.7
Subscribed capital	f	23.9	31.0	23.9	30.5

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value of the financial assets and liabilities above has been calculated using the following valuation methodology:

a) Cash in hand – Level 1
The fair value of cash in hand and deposits with central banks is the amount repayable on demand.

b) Loans and advances to credit institutions – Level 2
The fair value of overnight deposits is the amount repayable on demand.

The estimated fair value of collateral loans and advances to credit institutions is based on its market price as at the period end.

c) Loans and advances to customers – Level 3
Loans and advances are recorded net of provisions for impairment together with the fair value adjustment for hedged items. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received taking account of expected prepayment rates.

Estimated cash flows are discounted at prevailing market rates for items of similar remaining maturity. The fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

d) Shares, deposits and borrowings – Level 3
The fair value of shares and deposits and other borrowings with no stated maturity is the amount repayable on demand.

The fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on expected future cash flows determined by the contractual terms and conditions discounted at prevailing market rates for items of similar remaining maturity.

e) Debt securities in issue – Level 2
The fair value is calculated using a discounted cash flow model. Expected cash flows are discounted at prevailing market rates for items of similar remaining maturity.

f) Subscribed capital – Level 1
The estimated fair value of fixed interest bearing debt is based on its active market price as at the period end.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and liabilities carried at fair value

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

Group	Notes	2021 Level 1 £m	2021 Level 2 £m	2021 Total £m	2020 Level 1 £m	2020 Level 2 £m	2020 Total £m
Financial assets							
FVOCI - Debt securities	12	260.3	-	260.3	152.8	-	152.8
Derivative financial instruments – Interest rate swaps	13	-	26.1	26.1	-	0.8	0.8
		260.3	**26.1**	**286.4**	**152.8**	**0.8**	**153.6**
Financial liabilities							
Derivative financial instruments – Interest rate swaps	13	-	(6.5)	(6.5)	-	(32.5)	(32.5)
		-	**(6.5)**	**(6.5)**	**-**	**(32.5)**	**(32.5)**

The Group has no level 3 financial instruments carried at fair value.

Valuation techniques

The following is a description of the determination of fair value for financial instruments, which are accounted for at fair value using valuation techniques.

The fair value hierarchy detailed in IFRS 13: 'Fair Value Measurement' splits the source of input when deriving fair values into three levels, as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- **Level 3** – inputs for the asset or liability that are not based on observable market data

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

Debt securities

- **Level 1** – Market prices have been used to determine the fair value of listed debt securities
- **Level 2** - Debt securities for which there is no readily available traded price are valued based on the 'present value' method. This requires expected future principal and interest cash flows to be discounted using prevailing yield curves. The yield curves are generally observable market data which is derived from quoted interest rates in similar time bandings, which match the timings of the cash flows and maturities of the instruments.

Interest rate swaps

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

The Society's intercompany balances

The Society's intercompany balances are carried at fair value and are classed as level 3 instruments. They are measured based on a discounted cash flow calculation based on the most recent corporate plan, taking into account the risks inherent in the business areas and existing liquidity positions in the relevant entity.

Transfers between fair value hierarchies

Transfers between fair value hierarchies occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and it must instead be valued using a method lower down the hierarchy. There have been no transfers during the current or previously reported periods.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

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

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

Group and Society	2021 £m	2020 £m
Credit risk exposure		
Cash in hand and balances with the Bank of England	286.1	374.9
Loans and advances to credit institutions	16.1	64.5
Debt securities	260.8	152.9
Derivative financial instruments	26.1	0.8
Loans and advances to customers	3,010.9	3,128.0
Total statement of financial position exposure	**3,600.0**	**3,721.1**
Off balance sheet exposure – mortgage commitments	120.0	96.6
	3,720.0	**3,817.7**

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The Executive Risk Committee, supported by ALCO, is responsible for approving treasury counterparties for both derivatives and investment purposes, within the Board's risk appetite. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored weekly by the Society's Treasury risk team and reviewed monthly by the ALCO.

The Group's policy only permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies. The Group's Treasury team perform regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

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

Group	2021 £m	2021 %	2020 £m	2020 %
Industry sector				
Banks	89.0	15.8	112.8	19.0
Building Societies	44.4	7.9	17.4	2.9
Multilateral Development Banks	104.9	18.7	78.6	13.3
Central Government	324.2	57.6	383.4	64.8
	562.5		**592.2**	

Group	2021 £m	AAA %	AA %	A %	2020 £m
Geographic region					
United Kingdom	457.6	25.3	72.1	2.6	513.4
Multilateral Development banks	104.9	100.0	-	-	78.6
North America	-	-		-	0.2
	562.5				**592.2**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

a) Loans and advances to credit institutions, debt securities and derivative financial instruments (continued)

The Group has no exposure to foreign exchange risk. All instruments are denominated in sterling. The Group also has no direct exposure to any sovereign states, other than the UK.

The Group's derivative financial instruments are fully collateralised with a central clearing house in the United Kingdom and as a result there is no exposure to the Group.

All of the Group's treasury assets are classified as Stage 1 for ECL calculation purposes under IFRS 9 and there are no impairment charges against any of the Group's treasury assets as at 31 December 2021 (2020: £nil).

b) Loans and advances to customers

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

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

For new customers, the first element of the retail credit control framework is achieved via credit scoring, which assesses the credit quality of potential customers prior to making loan offers. The customers' credit score combines demographic and financial information. A second element is lending policy rules, which are applied to new applications to ensure that they meet the risk appetite of the Group. All mortgage applications are overseen by the Lending Services team who ensure that any additional lending criteria are applied and that all information submitted within the application is validated.

For existing customers who have been added to the lending portfolio, management use behavioural scorecards to review the ongoing creditworthiness of customers by determining the likelihood of them defaulting over a rolling 12 month period together with the amount of loss if they do default. The continual assessment of customer risk of default is used to assess the customer's suitability for further lending as well as feed into strategic decision making processes, such as the corporate plan. Models used within the customer rating process are monitored in line with industry best practice and to provide insight into changes observed within the mortgage portfolios.

Credit risk management information is comprehensive and is circulated to the RCC on a monthly basis to ensure that the portfolio remains within the Group's risk appetite.

It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data.

The Group does not have any exposure to the sub-prime market.

The maximum credit risk exposure is disclosed in the table on page 98.

Loans and advances to customers are predominantly made up of retail loans fully secured against UK residential property (£2,800.2 million), split between residential and buy-to-let loans with the remaining £232.6 million being secured on secured business lending.

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

The Group operates throughout England & Wales with the portfolio well spread throughout the geographic regions. An analysis of the Group's geographical concentration is shown in the table below:

Group and Society	2021 %	2020 %
Geographical analysis		
Eastern	9.5	9.9
East Midlands	16.8	18.0
London	8.6	8.0
North East	5.1	5.0
North West	11.8	11.3
South East	13.9	13.8
South West	8.7	8.8
Wales	3.4	3.3
West Midlands	9.8	9.6
Yorkshire & Humberside	12.1	12.1
Other	0.3	0.2
	100.0	**100.0**

Retail loans (Loans fully secured on residential properties)

Loans fully secured on residential property are split between residential and buy-to-let. The average LTV is the mean LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a house price index. The simple average LTV of residential mortgages is 49% (2020: 52%). All residential loans above 80% LTV are insured against loss.

The indexed LTV analysis on the Group's residential mortgage portfolio is shown below:

Group and Society	2021 Residential %	2021 Buy-to-let %	2020 Residential %	2020 Buy-to-let %
Loan to Value analysis				
< 60%	48.5	74.7	41.6	55.7
60% - 80%	45.1	25.3	42.0	44.3
80% - 90%	5.8	-	14.5	-
> 90%	0.6	-	1.9	-
	100.0	**100.0**	**100.0**	**100.0**
Average loan to value of loans	48.2	51.1	51.8	55.6
Average loan to value of new business	67.8	64.1	71.0	66.6

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears. By volume 0.2% (2020: 0.2%) of loans are three months or more in arrears and by value it is 0.2% (2020: 0.2%).

The main factor for loans moving into arrears tends to be the condition of the general economic environment. In general, the lower the loan-to-value percentage, the greater the equity within the property, and the lower the losses expected to be realised in the event of default or repossession

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

The table below shows the fair value of collateral held for residential mortgages.

Group and Society	2021 Indexed £m	2021 Unindexed £m	2020 Indexed £m	2020 Unindexed £m
Value of collateral held:				
Stage 1: *12 month expected credit losses*	5,709.5	4,460.3	3,873.1	3,162.7
Stage 2: *Lifetime expected credit losses*	257.0	196.3	1,971.7	1,692.3
Stage 3: *Lifetime expected credit losses*	42.4	28.3	17.4	12.9
	6,008.9	**4,684.9**	**5,862.2**	**4,867.9**

The collateral held consists of residential property. Collateral values are adjusted by the ONS Property Price Index to derive the indexed valuation at 31 December. This is the UK's longest running house price index and takes into account regional data from the 12 standard planning regions of the UK. The Group uses the index to update the property values of its residential and buy-to-let portfolios on a quarterly basis.

With collateral capped to the amount of outstanding debt, the value of collateral held against loans in stages 2 and 3 under IFRS 9 and which are in arrears, is £11.6 million as at 31 December 2021 (2020: £15.1 million).

The change in staging profile between 2020 and 2021, due to the refinement of the SICR criteria, is detailed in note 15.

Mortgage indemnity insurance acts as additional security. It is taken out for all residential loans where the borrowing exceeds 80% of the value of the property at the point of application.

The table below provides information on retail gross loans and Expected Credit Loss stages split by the number of days past due (DPD):

Group and Society	2021 Gross loans £m	2021 Expected Credit Loss £m	2020 Gross loans £m	2020 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	2,666.7	1.4	1,807.4	0.5
Stage 2: Lifetime expected credit losses				
< 30 days past due	111.5	0.2	1,117.7	1.0
> 30 days past due	5.8	-	9.3	0.1
Stage 3: Lifetime expected credit losses				
< 90 days past due	12.1	0.1	3.2	0.1
> 90 days past due	4.1	-	4.5	0.1
	2,800.2	**1.7**	**2,942.1**	**1.8**

ACCOUNTS

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Retail loans (continued)

Forbearance

Temporary interest only concessions were historically offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allowed the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase. Interest only concessions are no longer offered and have been replaced by reduced payment concessions.

Reduced payment concessions allow a customer to make an agreed underpayment for a specific period of time. The monthly underpaid amount accrues as arrears and agreement is reached at the end of the concession period on how the arrears will be repaid.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month, which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purposes of restructuring the loan.

The term of the mortgage is extended in order to reduce payments to a level that is affordable to the customer based on their current financial circumstances.

All forbearance arrangements are formally discussed with the customer and reviewed by management prior to acceptance of the forbearance arrangement. By offering customers in financial difficulty the option of forbearance, the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

Regular monitoring of the level and different types of forbearance activity are reported to the RCC on a monthly basis. In addition the Legal, Regulatory & Conduct Risk Committee monitors the level of arrears and forbearance cases. In addition, all forbearance arrangements are reviewed and discussed with the customer on a regular basis to assess the ongoing potential risk to the Society and suitability of the arrangement for the customer.

The Society does not offer payment deferrals as a forbearance option as part of normal operating arrangements and therefore any payment deferrals, which were granted in response to the Covid-19 pandemic and as part of the government interventions were therefore excluded from the forbearance data presented below in relation to the prior year. The payment deferral schemes ended during 2021, and therefore is not applicable to the 2021 reported data.

The table below details the number of forbearance cases within the retail loans category:

Unaudited Group and Society	2021 Number	2020 Number
Type of forbearance		
Interest only concessions	1	2
Reduced payment concessions	-	1
Payment plans	27	30
Capitalisations	47	53
Mortgage term extensions	52	62
Less: cases with more than one form of forbearance	(35)	(38)
	92	**110**

These cases are covered by an IFRS 9 ECL allowance of £22,000 (2020: £32,000). In total, £8.4 million (2020: £9.6 million) of loans are subject to forbearance.

Secured Business Loans (Other loans fully secured on land)

Secured Business Loans (SBL) are primarily made available to Small and Medium sized enterprises for either owner occupied or investment property purposes and includes limited company buy-to-let loans. Loans are also only granted against the 'bricks and mortar' of the property and not against working capital or machinery etc.

The make-up of the SBL book as at 31 December is as follows:

Unaudited Group and Society	2021 £m	2021 %	2020 £m	2020 %
Owner occupied	40.9	17.6	44.1	26.9
Investment property	191.7	82.4	120.0	73.1
	232.6	**100.0**	**164.1**	**100.0**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

The table below provides information on the original LTV of the Group's SBL mortgage portfolio:

Group and Society	2021 %	2020 %
Loan to Value analysis		
< 60%	23.7	28.4
60% - 80%	73.3	66.9
80% - 90%	2.9	4.6
> 90%	0.1	0.1
	100.0	**100.0**
Average loan to value of loans	65.6	63.1
Average loan to value of new business	69.4	68.4

The table below shows the fair value of collateral held for SBL loans:

Group and Society	2021 Indexed £m	2021 Unindexed £m	2020 Indexed £m	2020 Unindexed £m
Value of collateral held:				
Stage 1: 12 month expected credit losses	385.6	385.9	171.1	171.1
Stage 2: Lifetime expected credit losses	26.5	28.5	139.3	144.7
Stage 3: Lifetime expected credit losses	2.0	2.0	1.9	2.2
	414.1	**416.4**	**312.3**	**318.0**

Collateral reflects the latest valuation completed. If a property has had a desktop valuation since the latest full valuation, the collateral reflects the desktop valuation (32% of the SBL book has had a desktop valuation (2020: 35%)).

With collateral capped to the amount of outstanding debt, the value of collateral held against loans in stages 2 and 3 under IFRS 9 and which are in arrears, is £1.5 million as at 31 December 2021 (2020: £1.8 million).

The change in staging profile between 2020 and 2021, due to the refinement of the SICR criteria, is detailed in note 15.

The table below provides information on SBL gross loans and Expected Credit Loss stages split by the number of days past due (DPD):

Group and Society	2021 Gross loans £m	2021 Expected Credit Loss £m	2020 Gross loans £m	2020 Expected Credit Loss £m
Stage 1: 12 month expected credit losses				
< 30 days past due	215.1	0.8	106.0	1.5
Stage 2: Lifetime expected credit losses				
< 30 days past due	15.5	0.5	56.0	0.4
> 30 days past due	1.0	-	0.9	0.3
Stage 3: Lifetime expected credit losses				
< 90 days past due	0.7	-	0.6	0.1
> 90 days past due	0.3	0.1	0.6	0.4
	232.6	**1.4**	**164.1**	**2.7**

In terms of SBL risk, the single largest borrower represents less than 0.4% (2020: 0.6%) of the SBL mortgage book.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

b) Loans and advances to customers (continued)

Secured Business Loans (continued)

Forbearance

The Group has various forbearance options to support customers who may find themselves in financial difficulty. These include 'interest only' concessions, renegotiation of contractual payment, payment plans and capitalisations.

'Interest only' concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Renegotiation of contractual payments is provided to reduce the monthly payment to a level affordable by the customer. The agreement remains within the Society's lending policy, for example within the maximum mortgage term.

Payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Capitalisations occur where arrears are added to the capital balance outstanding for the purpose of restructuring the loan.

The Society does not offer payment deferrals as a forbearance option as part of normal operating arrangements and therefore any payment deferrals, which were granted in response to the Covid-19 pandemic and as part of the government interventions were therefore excluded from the forbearance data presented below in relation to the prior year. The payment deferral schemes ended during 2021, and therefore is not applicable to the 2021 reported data.

The table below shows those loans subject to forbearance within the SBL loans category:

Unaudited Group and Society	2021 Number	2020 Number
Type of forbearance		
Interest only concessions	5	6
Renegotiation of contractual payment	5	6
Active payment plan	2	3
Capitalisation	1	-
	13	**15**

These cases are covered by an IFRS 9 ECL allowance of £0.1 million (2020: £0.5 million). In total, £2.4 million (2020: £2.5 million) of loans are subject to forbearance.

Liquidity risk

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

i) meet day-to-day business needs;

ii) meet any unexpected cash needs;

iii) maintain public confidence; and

iv) ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Society's prudent policy framework, is performed daily. Compliance with these policies is reported to ALCO monthly and through to the Executive Risk and Board Risk Committees.

The Society's liquidity policy is designed to ensure the Society has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests have been developed as part of the Internal Liquidity Adequacy Assessment process (ILAAP). They include scenarios that fulfil the specific requirements of the PRA (the idiosyncratic, market-wide and combination stress tests) and scenarios identified by the Society which are specific to its business model. The stress tests are performed monthly and reported to ALCO to confirm that the liquidity policy remains appropriate.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Society's liquid resources comprise high quality liquid assets, including a Bank of England reserves account, Gilts, time deposits and investment grade fixed and floating rate notes issued by highly rated financial institutions, supplemented by unencumbered mortgage assets. At the end of the year the ratio of liquid assets to shares and deposits was 16.7% compared to 17.0% at the end of 2020. When also taking into account the off balance sheet liquid resources, the ratio of liquid resources to shares and deposits was 30.3% (2020: 32.5%).

The Society maintains a contingency funding plan, as part of its Recovery and Resolution Plan process, to ensure that it has so far as possible, sufficient liquid financial resources to meet liabilities as they fall due under each of the scenarios.

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity at the statement of financial position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. The average life of a mortgage at the Group, currently in product, is 4.4 years (2020: 4.3 years). Conversely, retail deposits repayable on demand generally remain on the balance sheet much longer.

Group Residual maturity as at 31 December 2021	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial assets						
Liquid assets						
Cash in hand and balances with the Bank of England	279.2	-	6.9	-	-	286.1
Loans and advances to credit institutions	8.0	8.1	-	-	-	16.1
Debt securities	-	14.0	11.3	235.0	-	260.3
Total liquid assets	287.2	22.1	18.2	235.0	-	562.5
Derivative financial instruments	-	(0.4)	2.2	16.4	7.9	26.1
Loans and advances to customers	0.7	24.6	75.1	438.0	2,472.5	3,010.9
Other assets	-	1.8	3.0	0.5	30.0	35.3
	287.9	**48.1**	**98.5**	**689.9**	**2,510.4**	**3,634.8**
Financial liabilities and reserves						
Shares	1,324.4	720.4	454.2	375.6	-	2,874.6
Amounts owed to credit institutions	2.9	28.1	-	315.1	-	346.1
Amounts owed to other customers	0.9	2.0	20.0	-	-	22.9
Debt securities in issue	-	-	127.1	-	-	127.1
Derivative financial instruments	-	0.4	3.0	3.1	-	6.5
Subscribed capital	-	0.1	-	-	23.9	24.0
Reserves	-	-	-	-	219.1	219.1
Other liabilities	1.6	3.4	1.2	3.1	5.2	14.5
	1,329.8	**754.4**	**605.5**	**696.9**	**248.2**	**3,634.8**
Net liquidity gap	**(1,041.9)**	**(706.3)**	**(507.0)**	**(7.0)**	**2,262.2**	**-**

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Group **Residual maturity** **as at 31 December 2020**	On demand **£m**	Not more than three months **£m**	More than three months but not more than one year **£m**	More than one year but not more than five years **£m**	More than five years **£m**	Total **£m**
Financial assets						
Liquid assets						
Cash in hand and balances with the Bank of England	368.7	-	6.2	-	-	374.9
Loans and advances to credit institutions	13.2	51.3	-	-	-	64.5
Debt securities	-	18.2	8.5	126.1	-	152.8
Total liquid assets	381.9	69.5	14.7	126.1	-	592.2
Derivative financial instruments	-	(0.2)	(0.5)	1.4	0.1	0.8
Loans and advances to customers	3.2	25.8	78.1	488.8	2,532.1	3,128.0
Other assets	-	1.8	8.4	0.3	26.9	37.4
	385.1	**96.9**	**100.7**	**616.6**	**2,559.1**	**3,758.4**
Financial liabilities and reserves						
Shares	1,364.9	584.1	394.4	450.4	0.4	2,794.2
Amounts owed to credit institutions	3.0	0.5	260.1	193.0	-	456.6
Amounts owed to other customers	1.0	33.9	-	-	-	34.9
Debt securities in issue	-	2.5	-	191.2	-	193.7
Derivative financial instruments	-	-	-	27.0	5.5	32.5
Subscribed capital	-	0.1	-	-	24.1	24.2
Reserves	-	-	-	-	206.3	206.3
Other liabilities	1.9	2.6	0.9	3.4	7.2	16.0
	1,370.8	**623.7**	**655.4**	**865.0**	**243.5**	**3,758.4**
Net liquidity gap	**(985.7)**	**(526.8)**	**(554.7)**	**(248.4)**	**2,315.6**	**-**

There is no material difference between the maturity profile for the Group and that for the Society. As at 31 December 2021, £599.5 million (2020: £841.2 million) of the Group's assets were encumbered.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

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

Group 31 December 2021	Repayable on demand £m	Not more than three months £m	More than three months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Total £m
Shares	1,336.7	720.4	454.3	375.8	-	2,887.2
Amounts owed to credit institutions	2.9	28.1	-	315.1	-	346.1
Amounts owed to other customers	0.9	2.0	20.0	-	-	22.9
Debt securities in issue	-	5.1	122.0	-	-	127.1
Derivative financial instruments	-	0.5	1.6	10.3	-	12.4
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,340.5**	**756.6**	**599.4**	**709.1**	**23.9**	**3,429.5**
Group 31 December 2020						
Shares	1,384.3	584.1	394.4	451.4	0.4	2,814.6
Amounts owed to credit institutions	2.9	0.6	260.1	193.0	-	456.6
Amounts owed to other customers	0.9	34.0	-	-	-	34.9
Debt securities in issue	-	11.8	23.5	158.4	-	193.7
Derivative financial instruments	-	0.9	4.5	28.3	-	33.7
Subscribed capital	-	0.5	1.5	7.9	23.9	33.8
TOTAL LIABILITIES	**1,388.1**	**631.9**	**684.0**	**839.0**	**24.3**	**3,567.3**

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

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates and changes in the relationship between different types of interest rates (basis risk).

The Society has adopted the 'Extended' approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position.

The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a range of stress tests, including a 2% rise in interest rates on a weekly basis. The results are measured against the risk appetite for market risk which is currently set at a maximum of 4.0% of capital. In addition, management review interest rate basis risk and its potential impact on earnings. Risk positions are reviewed monthly by the ALCO and reported through to the Executive Risk and Board Risk Committees.

The table below summarises the Group's exposure to interest rate risk.

Group and Society	2021 £m	2020 £m
Changes in market value from a 2% parallel upward shift in interest rates	0.1	0.9

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

The Group is not exposed to foreign currency risk.

The Society does not have any financial assets or liabilities that are offset with the net amount presented in the statement of financial position as IAS 32 'Financial Instruments – Presentation' requires both an enforceable right to set off and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions are met by the Society.

All financial assets and liabilities are presented on a gross basis in the statement of financial position.

The Society centrally clears its derivative instruments, which requires it to enter into Credit Support Annexes (CSAs) and which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

The following table shows the impact on derivative financial instruments and repurchase agreements after collateral:

Group and Society	2021 Gross Amounts £m	2021 Financial collateral* £m	2021 Net amounts £m	2020 Gross Amounts £m	2020 Financial collateral* £m	2020 Net amounts £m
Financial assets						
Derivative financial instruments	26.1	(26.1)	-	0.8	(0.8)	-
TOTAL FINANCIAL ASSETS	**26.1**	(26.1)	**-**	**0.8**	**(0.8)**	**-**
Financial liabilities						
Derivative financial instruments	6.5	(6.5)	-	32.5	(32.5)	-
Repurchase agreements	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**6.5**	**(6.5)**	**-**	**32.5**	**(32.5)**	**-**

* Financial collateral disclosed is limited to the amount of the related financial asset and liability.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges

The Group holds a portfolio of fixed rate mortgages and savings products as well as fixed rate PIBS and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed/receive floating interest rate swaps for its loans to customers and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed separately but are not managed through hedged derivative financial instruments by the Group. The interest rate risk component is determined as the change in the fair value of the long-term fixed rate mortgages arising solely from changes in the appropriate 3 month benchmark rate of interest (SONIA). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps. The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volumes of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- difference in the discounting between the hedged item and the hedging instrument, as cash collateralised interest rate swaps are discounted using the relevant reference rate discount curves, which are not applied to the fixed rate mortgages; and
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and early prepayments made by customers in each period. As a result, the Group adopts a dynamic hedging strategy (sometimes referred to as a 'macro' or 'portfolio' hedge) to hedge the exposure profile by closing and entering into new swap agreements at each month-end. The Group uses the portfolio fair value hedge of interest rate risk to recognise fair value changes related to changes in interest rate risk in the relevant portfolio, and therefore reduce the profit or loss volatility that would otherwise arise from changes in fair value of the interest rate swaps alone.

The following table details the hedging instruments included in the derivative financial instruments line of the Group's consolidated statement of financial position:

Group and Society	2021 Contract/notional amount £m	2021 Fair value of assets £m	2021 Fair value of liabilities £m	2021 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,991.0	21.4	(6.1)	48.6
Fixed rate savings	74.0	1.6	(0.3)	-
Subscribed capital	-	-	-	(1.5)
	2,065.0	**23.0**	**(6.4)**	**47.1**

Group and Society	2020 Contract/notional amount £m	2020 Fair value of assets £m	2020 Fair value of liabilities £m	2020 Changes in fair value used for calculating hedge ineffectiveness £m
Derivatives designated as fair value hedges for interest rate risk (note 13)				
Fixed rate mortgages	1,854.0	0.1	(31.5)	(17.5)
Fixed rate savings	309.0	-	-	-
Subscribed capital	10.0	0.3	-	0.8
	2,173.0	**0.4**	**(31.5)**	**(16.7)**

NOTES TO THE ACCOUNTS (CONTINUED)

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table details the hedge exposures covered by the Group's hedging strategies:

Group and Society	2021 Carrying amount of hedged item Assets £m	2021 Carrying amount of hedged item Liabilities £m	2021 Accummulated amount of fair value adjustments on the hedged item Assets £m	2021 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2021 Balance sheet line item	2021 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	2,047.0	-	(18.8)	-	Loans & advances to customers	(42.0)
Fixed rate savings	-	77.4	-	(0.3)	Shares	1.3
Subscribed capital	-	-	-	-	Subscribed capital	0.3
	2,047.0	**77.4**	**(18.8)**	**(0.3)**		**(40.4)**

Group and Society	2020 Carrying amount of hedged item Assets £m	2020 Carrying amount of hedged item Liabilities £m	2020 Accummulated amount of fair value adjustments on the hedged item Assets £m	2020 Accummulated amount of fair value adjustments on the hedged item Liabilities £m	2020 Balance sheet line item	2020 Change in fair value of hedged item for ineffectiveness assessment £m
Hedged items in fair value hedges for interest rate risk (note 13)						
Fixed rate mortgages	1,897.6	-	26.3	-	Loans & advances to customers	15.8
Fixed rate savings	-	301.0	-	(1.0)	Shares	(1.3)
Subscribed capital	-	10.0	-	(0.3)	Subscribed capital	0.5
	1,897.6	**311.0**	**26.3**	**(1.3)**		**15.0**

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market and interest rate risk (continued)

Fair value hedges (continued)

The following table contains information regarding the effectiveness of the hedging relationships designated by the Group, as well as the impacts on profit or loss.

Group and Society	2021 Hedge ineffectiveness recognised in income statement £m	2021 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	6.6	Net gains from derivative financial instruments
Fixed rate savings	(0.1)	Net gains from derivative financial instruments
Subscribed capital	-	Net gains from derivative financial instruments
	6.5	

Group and Society	2020 Hedge ineffectiveness recognised in income statement £m	2020 Income statement line item that includes reclassified amount
Fair value hedges		
Interest rate swaps		
Fixed rate mortgages	(1.7)	Net losses from derivative financial instruments
Fixed rate savings	-	Net losses from derivative financial instruments
Subscribed capital	-	Net losses from derivative financial instruments
	(1.7)	

ACCOUNTS

32. CAPITAL STRUCTURE

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

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

- **Lending and Business Decisions** – The Society uses application scorecards to help it assess whether mortgage applications fit within its appetite for credit risk. Once loan funds have been advanced, behavioural scorecards are used to review the ongoing risk profile of both the portfolios and individual customers. In addition, for residential and buy-to-let mortgages property values are updated on a quarterly basis.
- **Pricing** – Pricing models are utilised for all mortgage product launches. The models include expected loss estimates and capital utilisation enabling the calculation of a risk adjusted return on capital.
- **Concentration risk** – The design of retail products takes into account the overall mix of products to ensure that exposure to market risk remains within permitted parameters.
- **Counterparty risk** – Wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

This is subjected to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

The Group's capital requirements are set and monitored by the PRA. During 2021, the Society has complied with the requirements included within the Capital Requirements Directive IV (Basel III). Further details of these requirements and their impact on the Society are provided in the Strategic report on page 15.

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

Under Basel III Pillar 3, the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available on our website **www.thenottingham.com**.

NOTES TO THE ACCOUNTS (CONTINUED)

33. RELATED PARTY TRANSACTIONS

Transactions with Group companies

Details of the Society's shares in group undertakings are given in note 16.

During the normal course of business the following transactions were undertaken during the year:

Society	2021 Nottingham Mortgage Services £m	2021 Nottingham Property Services £m	2021 Harrison Murray £m	2020 Nottingham Mortgage Services £m	2020 Nottingham Property Services £m	2020 Harrison Murray £m
Management charges paid	-	-	-	0.1	0.1	0.1
People related recharges	0.1	-	-	0.3	0.1	0.1
Fixed occupancy related recharges	-	-	-	-	-	-

During the year, Nottingham Building Society has received £0.2 million (2020: £0.1 million) in fees for providing cash manager and mortgage servicer fees to Arrow Mortgage Finance No.1 Limited.

Movement on the intercompany balances are disclosed in note 16.

During the year, property with the value of £0.7m has been transferred at fair value to the Society from Nottingham Property Services Ltd.

At the end of the year the following balances were outstanding between the Society and its subsidiaries:

	2021 Amount owed to subsidiaries £m	2021 Amount owed by subsidiaries £m	2020 Amount owed to subsidiaries £m	2020 Amount owed by subsidiaries £m
Arrow Mortgage Finance No. 1 Limited	(145.2)	26.6	(205.2)	26.6
	(145.2)	**26.6**	**(205.2)**	**26.6**

Interest accrues on the balances outstanding with Arrow Mortgage Finance at SONIA plus a margin. The repayment of the loans will follow the collection of the principal and interest of the underlying mortgage assets, used as security and has a contractual maturity within one year.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to members and other employees within the Group. The directors are considered to be the only key management personnel as defined by IAS 24, which includes Non-Executive Directors.

Compensation for key management personnel for the year totalled £0.8 million (2020: £0.9 million) and a breakdown is disclosed on pages 45 and 46 in the Directors' remuneration report.

In addition, the following transactions were undertaken through the normal course of business:

Group and Society	2021 Number of key management personnel and their close family members Number	2021 Amounts in respect of key management personnel and their close family members £000	2020 Number of key management personnel and their close family members Number	2020 Amounts in respect of key management personnel and their close family members £000
Loans and advances				
Net movements in the year	-	(16)	-	(16)
Balances outstanding 31 December	2	107	2	123
Share accounts				
Net movement in the year	(1)	(30)	(1)	24
Balances outstanding 31 December	7	135	8	105
Subscribed capital				
Net movement in the year	1	7	1	6
Balances outstanding 31 December	2	13	1	6
Interest receivable on loans & advances		2		3
Interest payable on share accounts		-		-
Interest payable on subscribed capital		1		-

Directors' loans and transactions

As at 31 December 2021 there was one (2020: one) outstanding secured mortgage loan made in the ordinary course of business at a normal commercial rate to directors and their connected persons. A register is maintained at the head office of the Society that 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 31 December 2021, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

ACCOUNTS

34. DISCONTINUED OPERATIONS

In July 2021, the Society disposed of its 100% owned mortgage broking subsidiary, Nottingham Mortgage Services Ltd and therefore the Mortgage Broking operating segment, as presented in note 2, is discontinued. A gain of £0.5m in the Group and £0.7m in the Society, was recognised in the year on the disposal of the entity. The proceeds of £0.7m were received in cash and £0.2m of net assets that the Society lost control over included £0.4m of cash and cash equivalents.

During the prior year, the Group exited the estate agency market and sold its Lettings portfolio of managed properties to a third party. Therefore the estate agency operating segment, as presented in note 2 and which comprises Nottingham Property Services Ltd, Harrison Murray Ltd and HM Lettings Ltd, is classed as discontinued. A gain of £0.2m was recognised in the prior year on disposal of the portfolio of Lettings managed properties.

The following results included in the Group's statement of comprehensive income for the year are attributable to the discontinued operations:

	2021 Discontinued operations £m	2020 Discontinued operations £m
Net interest income	-	-
Fees & commissions receivable	1.0	2.6
Other income	-	0.2
Total net income	**1.0**	**2.8**
Administrative expenses	(0.8)	(3.0)
Profit/(loss) before tax	**0.2**	**(0.2)**
Profit (loss) for the financial year	**0.2**	**(0.2)**

The disclosure table above has been represented for 2020 to classify the mortgage broking operating segment as discontinued.

Both the cash flows and assets and liabilities relating to the discontinued operations are immaterial to the Group financial statements and therefore have not been separately disclosed.

35. INTEREST RATE BENCHMARK REFORM (IBOR REFORM)

On 1 January 2021, the Society adopted Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7). The Society has applied these amendments until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and amount of the underlying cash flows to which the Society is exposed, ended. The Society's remaining exposure was in relation to LIBOR interest rate derivative financial instruments.

During 2020 and 2021, the Society has been carrying out an exercise to close out the existing LIBOR interest rate financial instruments in preparation for the benchmark transition deadline and this activity was completed by 31 December 2021, when the Society's remaining derivative contracts that reference LIBOR were amended to convert to the alternative benchmark rate (SONIA) and replaced the cash flows and the relevant spread adjustment. This final conversion of the residual derivative instruments took place under the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol, which the Society is party to, through its central clearing house.

51 LIBOR linked derivative financial instruments with a notional value of £585.0m and fair value of £2.6m were converted to the alternative benchmark rate, SONIA, during December 2021 under the ISDA 2020 IBOR Fallbacks Protocol.

As a result, as at 31 December, the Society has no remaining uncertainty arising from the interest rate benchmark reforms with all benchmark rate linked financial instruments now referencing SONIA with respect to its underlying cash flow exposures.

36. NOTES TO THE CASH FLOW STATEMENTS

Group	Notes	2021 £m	2020 £m
Changes in liabilities arising from financing activities			
Subscribed capital at 1 January		23.9	23.9
Accrued interest		1.9	1.9
Interest paid		(1.9)	(1.9)
Balance at 31 December	29	**23.9**	**23.9**

37. REGISTERED OFFICE

Nottingham Building Society is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is: Nottingham House, 3 Fulforth Street, Nottingham, NG1 3DL.

ACCOUNTS

ANNUAL BUSINESS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

1. Statutory percentages	2021 %	Statutory limit %
Lending limit		
Proportion of business assets not in the form of loans fully secured on residential property	8.05	25
Funding limit		
Proportion of shares and borrowings not in the form of shares held by individuals	14.72	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 and are based on the Group statement of financial position.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group statement of financial position plus impairment for losses on loans and advances (note 15), less property, plant and equipment, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable.

Total 'shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position. Shares held by individuals are found in note 21.

2. Other percentages	2021 %	2020 %
As a percentage of shares and borrowings:		
Gross capital	7.21	6.62
Free capital	6.33	5.85
Liquid assets	16.69	17.02
As a percentage of mean total assets:		
Profit/(loss) after taxation	0.34	(0.19)
Management expenses (Group)	1.19	1.25
Management expenses (Society)	1.17	1.15
As a percentage of year end assets:		
Return on assets	0.35	(0.19)

The above percentages have been calculated from the Group accounts.

'Shares and borrowings' are the aggregate of 'shares', 'amounts owed to credit institutions', 'amounts owed to other customers' and 'debt securities in issue' in the Group statement of financial position.

'Gross capital' is the aggregate of subscribed capital and aggregated reserves as shown in the Group statement of financial position.

'Free capital' is gross capital less property, plant and equipment, lease assets and intangible assets in the Group statement of financial position.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year for the Group/Society.

'Liquid assets' are the first three items on the asset side of the Group statement of financial position.

'Management expenses' are the aggregate of administrative expenses (excluding acquisition and merger costs) and depreciation and amortisation taken from the Group/Society statements of comprehensive income.

3. Information about the directors at 31 December 2021:

Director's name	Date of appointment	Age	Business occupation	Other directorships (and offices)
Simon Baum	18.06.18	59	Director	Baum Associates Ltd
Michael Brierley	13.07.20	63	Director	Admiral Group plc Admiral Financial Services Ltd Rose Theatre Trust
Simon Linares	01.12.19	57	Director	Kids Out Trading Ltd Kids Out UK Charity
David Marlow Chief Executive	16.01.06	56	Building Society Executive	Harrison Murray Limited HM Lettings Limited Nottingham Property Services Ltd Member of FCA Smaller Business Practitioner Panel
Andrew Neden Chairman	17.09.14	59	Director	ABC International Bank plc Aetna Insurance Company Ltd Eltham College Ltd Grace Church Dulwich Ltd Northgate (Warwick) Developments Ltd The Great St Helen's Trust Ltd Wesleyan Assurance Society Wesleyan Unit Trust Managers Ltd
Peter O'Donnell	01.01.21	55	Director	Cardiac Risk in the Young
Kavita Patel	01.01.17	45	Director	Shakespeare Martineau LLP Philsec Ltd Meaujo Incorporations Ltd
Kerry Spooner	01.09.16	60	Director	Scotiabank Europe plc

OTHER INFORMATION

Directors' service contracts:

David Marlow entered into his contract as Chief Executive on 21 February 2011; however, he has been a Director of the Society since 16 January 2006.

All contracts are terminable at any time by the Society on 12 months' notice and by the individual on six months' notice. Unless notice to terminate is given by either party, the contracts continue automatically.

GLOSSARY

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

Additional Tier 1 capital (AT1)	Capital that meets certain rules under CRD IV and which comprises the Society's PIBS but only under the transitional provisions.
Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel III	Basel III became effective in the UK on 1 January 2014 through CRD IV and sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Buy-to-let loans (BTL)	Buy-to-let loans are those loans which are offered to customers buying residential property specifically to let out and generate a rental income.
Capital Requirements Directive (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It is made up of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), outlining the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Common Equity Tier 1 capital (CET1)	CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk weighted assets.
Contractual maturity	The date at which a loan or financial instrument expires, at which point all outstanding principal and interest has been paid.
Cost income ratio	A ratio that represents the proportion of administrative expenses to total income. On an underlying basis, is defined as total administrative expenses (excluding one-off strategic investment costs) as a percentage of total income (excluding the impact of fair value gains or losses from derivatives and one off income).
Credit risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Transferable certificates of indebtedness of the Society to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Derivative financial instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates or stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rate risk.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid and received between parties which are integral to the contract.
Expected Credit Loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term is used for accounting for impairment provisions under the new IFRS 9 standard.
Exposure	The maximum loss a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations.
Exposure at Default (EAD)	A component of the IFRS 9 expected credit loss calculation. The EAD model calculates the balance profile of each mortgage account over its expected behavioural lifetime.
Fair value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fair value through other comprehensive income (FVOCI)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through other comprehensive income.
Fair value through profit or loss (FVPL)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through the income statement.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.

Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Forbearance strategies	Strategies to support borrowers in financial difficulty, such as agreeing a temporary reduction in the monthly payment, extending mortgage terms and a conversion to an interest-only basis. The aim of forbearance strategies is to avoid repossession.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding limit	Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals. The calculation of the funding limit is explained in the Annual Business Statement.
General reserves	The accumulation of the Society's historic and current year profits which is the main component of Common Equity Tier 1 capital.
Gross capital	The aggregate of general reserves, fair value reserves and subscribed capital.
Impaired loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due.
Interest rate risk	The risk of loss due to a change in market interest rates. Interest rate risk can have an impact on Society's mortgages and savings products.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Lending limit	Measures the proportion of business assets not in the form of loans fully secured on residential property.
Leverage ratio	The ratio of Tier 1 capital divided by the total exposures, which includes on and off balance sheet items.
Liquid assets	Total of cash in hand, loans and advances to credit institutions, and debt securities.
Liquid assets ratio	A ratio that expresses liquid assets as a percentage of mean total assets.
Liquidity resources	Assets held in order to manage liquidity risk. Liquidity resources comprises cash and balances with the Bank of England, UK Government securities and multilateral development banks, other securities and bank deposits and Bank of England approved mortgage portfolios. Liquid resources ratio is expressed as a percentage of shares, deposits and funding liabilities.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only secure them at excessive cost. This risk arises from timing mismatches of cash inflows and outflows.
Loan to value ratio (LTV)	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Loans past due	Loans on which a payment has not been made as of its due date.
Loss Given Default (LGD)	A component of the IFRS 9 expected credit loss calculation. The LGD model calculates the likely loss on asset disposal that the Society would suffer if a default event were to occur in any given month over the expected behavioural lifetime of a mortgage account.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Management expenses ratio	A ratio that expresses management expenses as a percentage of mean total assets. On an underlying basis, excludes one-off strategic investment costs.
Market risk	The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create potential losses or decrease the value of the Society balance sheet.
Mean total assets	Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

GLOSSARY (CONTINUED)

Member	A person who has a share investment or a mortgage loan with the Society.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	A ratio expressing net interest income as a percentage of mean total assets.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Permanent interest bearing shares (PIBS) / Subscribed capital	Unsecured, deferred shares of the Society that are a form of Additional Tier 1 capital under the transitional rules of CRD IV. PIBS rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Probability of Default (PD)	A component of the IFRS 9 expected credit loss calculation. An estimate of the probability that a borrower will default on their credit obligation over a fixed time period. A 12 month ECL uses a 12 month PD, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
Renegotiated loans	Loans are classed as renegotiated where an agreement between a borrower and a lender has been made to modify the loan terms either as part of an on-going relationship or if the borrower is in financial difficulties. The renegotiated loan may no longer be treated as past due or impaired.
Residential loans	Loans that are loaned to individuals rather than institutions and are secured against residential property.
Right-of-use assets	A lessee's right to use an asset over the life of a lease. The cost of the asset is calculated as the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.
Risk appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst also achieving business objectives.
Risk weighted assets (RWA)	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
Secured business lending (SBL)	Loans secured on commercial property which is only made available to Small and Medium sized Enterprises and includes limited company buy-to-let lending.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The aggregate of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
Significant increase in credit risk (SICR)	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has moved significantly since the last asset was originally recognised.
Special Purpose Vehicle (SPV)	A legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives. In the context of the Society, the SPV is used in relation to securitisation activities.
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.
Stage 1	A component of the IFRS 9 expected credit loss calculation. Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	A component of the IFRS 9 expected credit loss calculation. Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is the EIR on the gross carrying amount.
Stage 3	A component of the IFRS 9 expected credit loss calculation. Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is also recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.

Standardised approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.
Term Funding Scheme (TFS) **Term Funding with additional incentives for SMEs (TFSME)**	Schemes launched by the Bank of England and HM Treasury, which provides funding to participating banks and building societies with the aim of stimulating lending within the economy.
Tier 1 capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 1 ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Total Capital Requirement (TCR)	The total amount of capital the regulator requires the Society to hold, which is made up of Pillar 1 and Pillar 2A capital.
Underlying profit	A measure which aims to present management's view of the Group's underlying performance for the reader of the Annual Report & Accounts with like for like comparisons of performance across years without the distortion of one-off volatility and items which are not reflective of the Group's ongoing business activities.
Wholesale funding	Amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

The Nottingham

thenottingham.com 0344 481 4444

Nottingham Building Society, Nottingham House,
3 Fulforth Street, Nottingham NG1 3DL

LIT3656/1221