Annual Report & Accounts 2021

Continuing to provide for our customers and our communities

Always with your interest at heart

Furness BUILDING SOCIETY

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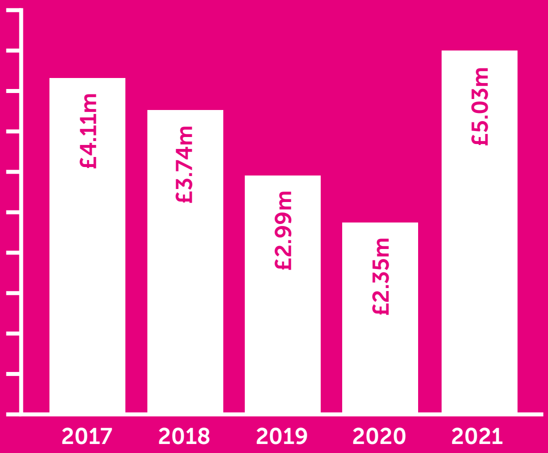

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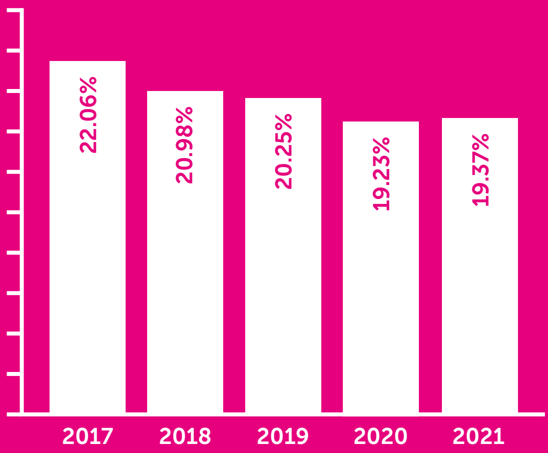

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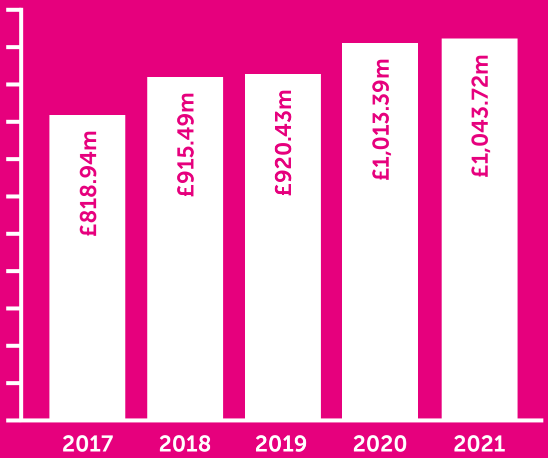

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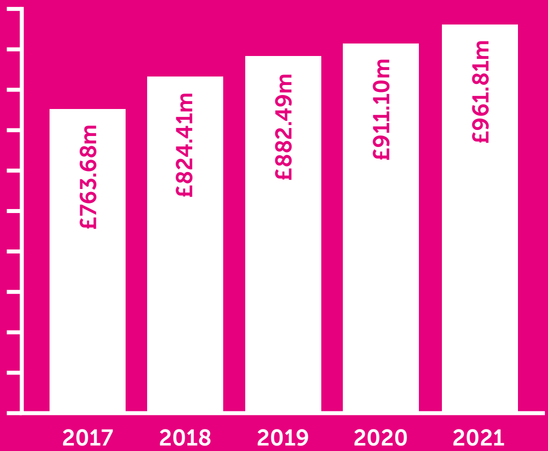


Chairman's Report

Thanks to our colleagues and members

The year was marked with some familiar challenges and some new ones. As in 2020 we prioritised the welfare and safety of our colleagues and the needs of our members. We recognised that our members' needs changed as they dealt with their own challenges and we were responsive to these.

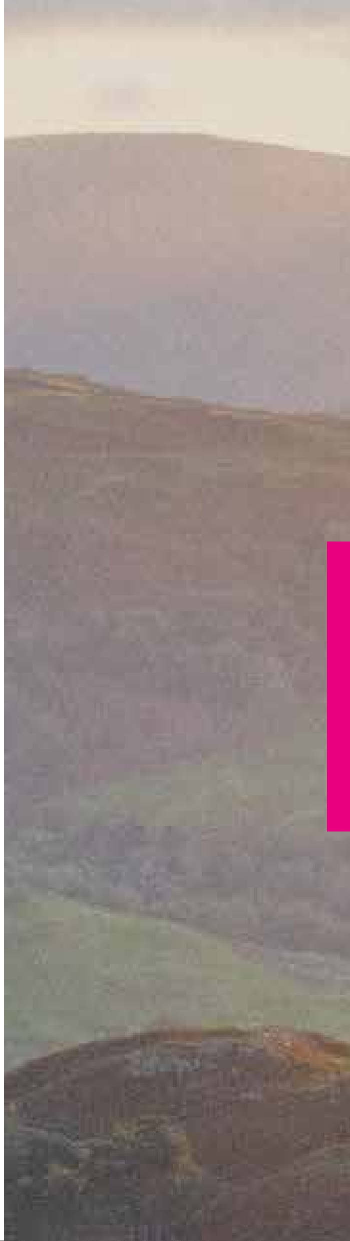
Despite the difficulties caused by Covid and the associated restrictions and lockdowns, we had a very strong performance in 2021 both in terms of our key performance objectives and also the delivery of a number of major strategic initiatives, both of which I will expand upon later.

Our team of talented and hardworking individuals is the cornerstone to our success and I'm grateful to all my colleagues, as well as all of our members, for their support during these very challenging times. We appreciate there have been occasions when normal service was not available and we thank members for their patience and loyalty.

Towards the end of the year, we bid farewell to our Marketing and Sales Director, Sue Heron, who retired after 26 years valued service having joined us as a branch assistant in 1995. Sue made a significant contribution to the Society and its members, particularly since joining the Board in 2015 and we wish her the very best in her retirement.

2021 Building and strengthening our position

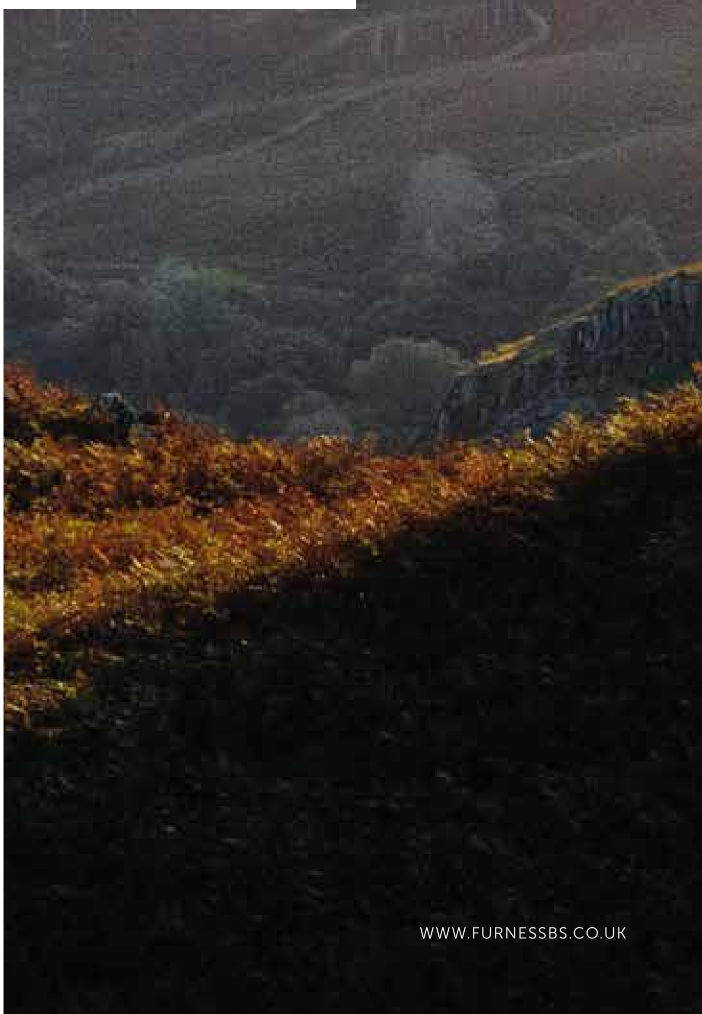
We entered 2021 in a relatively strong position although we had not expected that the disruption caused by Covid would continue for so long. However, we had adapted our operations to ensure we could continue to serve our members despite the working restrictions.



With respect to our business performance I would particularly point to our profit before tax of £5.03m up from £2.35m in 2020, new mortgage lending of £249m up from £187m, our loan loss provisions at £695k down from £1,040k and arrears down 35% from 2020. Our provisions have benefited from strong house prices during 2021, this has also contributed to a reduction to the average LTV ratio on our mortgage book which reduced from 42.9% in 2020 to 42.7% in 2021. More details regarding business performance are provided in the Directors Report on page 14.

At the end of 2020 we closed our agency network as we could see that members were preferring other ways of managing their savings and mortgages. It was pleasing that this decision had a much lower than anticipated effect on member numbers and savings balances.

I wish to provide some context for the increase in costs in 2021 of our Executive team as shown in the Directors' Remuneration Report. In 2020 we took the decision that it would be inappropriate to award any bonus payments to the Executive given the Covid crisis. We concluded that for 2021 bonus payments should be reinstated and the Executive met or exceeded the majority of its agreed targets.



Caring for our Members

As well as keeping all our branches open, online and remote services have been enhanced and improved to meet the changing needs of our members. We launched our new website in March 2021 and we'll continue to respond to our members changing and evolving needs.

We have been able to improve the rates of many of our savings accounts due to the Bank of England base rate rises to 0.5%, and we will seek to maintain a fair return to members if the Bank of England base rate continues to increase. We have a range of longer-term products for those savers looking to achieve a higher rate of interest.

We were able to help many members take advantage of the stamp duty holiday and despite exceptional levels of new mortgage applications, maintained service levels and ensured members could complete their home purchases before the deadline.

We continued to support members facing financial difficulty with the mortgage payment deferral scheme. It was very good to see that despite over 1,200 customers using the scheme, by the year end the vast majority of members had returned to normal mortgage repayments.

The majority of our members live in the North West. As a mutual organisation we recognise that we have a responsibility to support the community that we serve. In 2021 we made donations of £8k to local charities details of which are available on our website. This is in addition to the £120k we have provided through our Community Account payment scheme.

Understanding what our members think of their Society is key to meeting their expectations and maintaining a strong brand franchise. In 2021 we extended the member research that we undertake and now specifically use a widely recognised measure known as 'Net Promoter Score' or 'NPS'. This will enable us to accurately monitor how our members feel about their Society both over time and as we introduce new products and services.

As a mutual building society, our long heritage and commitment to current and future members provides stability and will always focus on our sustainability and security

Strategic Priorities

When the pandemic began to impact our country in 2020, we had to adapt and like most businesses we didn't achieve everything we set out to do that year. However, we quickly adapted and during 2021 we were able to refocus on our strategic priorities and have made great progress.

Our IT systems are fundamental to the services we provide and we continue to invest in them. In 2021 we successfully completed a major upgrade to our core IT system which supports all of our products and services. In addition to providing enhanced resilience and functionality, the new system will provide a foundation which enables us to further invest and improve our digital functionality and meet the expectations of new generations of members who prefer to access services on mobile devices and tablets.

It is incumbent on Boards to ensure that they make the best possible use of the resources available to them. Capital is a key resource the adequacy of which is fundamental to protecting our franchise and meeting members needs. In 2021 we completed a review of our pension arrangements the result of which was a significant reduction in the Scheme risk. As a consequence, we have additional capital now available to invest in the future growth and development of the Society.

Building societies provide key financial services to millions of members across the UK. With over 43,000 members relying on us it is fundamentally important that they can trust and rely on us to keep their assets safe. We significantly strengthened our Compliance and Risk functions during 2021 to ensure we are appropriately resourced for the increasing regulatory requirements expected over the next few years.

Financial Position

Despite the continuing backdrop of the pandemic and its impact on the economic environment, we delivered a strong trading performance in 2021.

Our profitability increased as a result of increased mortgage lending and cyclical factors including lower provisioning and increased swap fair values.

Mortgage balances have grown thanks to our strategic and customer focus. Our savings balances have also shown growth in 2021, due in part to our commitment to supporting savings members with a range of products to meet their needs and due also to customers spending less during the pandemic.

However, we are not complacent and aware that there remains uncertainty for the future, as we have seen with the impact of the latest variant of the virus. As a mutual building society, our long heritage and commitment to current and future members provides stability and we will always focus on our sustainability and security.

Looking forward

I'm pleased with our performance and the progress we have made in 2021 which continues the strong growth trajectory we have achieved over the past few years.

This has put us in a strong position to invest further in your Society. The Board have agreed a multi-million pound investment programme over the next few years focused on improving the services we provide.

We will invest in improving our digital capability to meet the growing demand for online services. We will invest in our branch network to provide an environment appropriate for those who prefer a personal and face to face service. We will invest further in supporting local communities in the North West. We will invest in new and innovative products and services with a specific focus on the needs of our members and potential members in out heartland. And we will continue to invest in our systems and controls to ensure you can continue to be confident that we are a safe place for your savings.

Whilst we are confident in the capability of the team we have built; we are not complacent. There are significant economic and geopolitical challenges ahead such as the events in Ukraine. Inflation is rising, interest rates are expected to rise further and there is no certainty that the pandemic is behind us. The Society does of course, stress-test mortgage applications to ensure borrowers can afford a sizeable increase in interest rates.

However, our business was well prepared to withstand the stresses of the pandemic, and we remain relevant, well capitalised and on course to build on our successful performance in 2021 and deliver our key strategic initiatives.

Credit for our continued success goes to our entire team and I'd like to thank colleagues for their commitment and determination to serve our members to the best of their ability.

Approved by the Board of Directors 15 March 2022

Graham Berville

Chairman, Graham Berville
15 March 2022

Strategic Report

Strategic Overview & Priorities

2021 has proved another challenging year by any standard. However, as we adapted to the new working practices and market demands, our leadership team were able to respond to the opportunities presented.

Our 2021 business performance was very strong which reflects the strategic intent of our leadership and the hard work of all our colleagues.

We're hugely grateful for the contribution of our people during a demanding period that enabled us to achieve record levels of new lending whilst also delivering a number of strategic initiatives, including a major upgrade to our core IT platform and launching a new website.

We have committed to a significant investment in our digital technology, branch network and our people over the Corporate Plan period, as we continue to grow our business to meet the future needs of our members.

Safeguarding our people and protecting the financial security of our members has remained our core focus and our thoughts are with those colleagues and members personally affected by the pandemic.

As in previous years, we remain committed to contributing to our members' personal prosperity by facilitating property ownership and a fair savings return. For this reason financial strength and stability continued to be important goals during the year. We were able to significantly reduce the Defined Benefits Scheme pension deficit over the course of 2021, with the help of the new Trustee Board and professional advisers, which has added to the overall strength of our capital position.

We've shown great resilience in our business continuity and our performance, although we are not complacent. Operational risk and resilience will continue to be an area of investment and development throughout 2022 and beyond.

As part of our strategic review, we committed to building on our solutions lending proposition to offer our members and brokers a range of products and services that meet their needs - at an appropriate return for our wider mutual membership. Our purpose remains unchanged; we're here to help people buy or build their dream homes and help them with their prosperity and savings aspirations, providing fair values and security. Our mortgage applications (purchase and re-mortgage) are individually underwritten by a team of experienced colleagues, able to understand and assess any cases which prove to be more complex or unusual.

During the first lockdown, the housing market was effectively closed and, of course, this impacted our 2020 results including growth and profitability. However, we were able to implement new working practices which enabled us to build on our performance and be in a good position to take advantage of high demand in the housing market, due to the stamp duty holiday and other market drivers in 2021. As a result we achieved new lending of £249m.

Our investment in increased resource and capability to strengthen our Risk and Treasury functions, together with the operational teams, led to improvements in credit risk and interest rate risk management. The collaboration across the business has enabled agile product development and margin management which provides long term resilience and sustainability whilst delivering fair value to savers and borrowers.

Pre-tax profit for the year was significantly higher than the previous year at £5.0m compared to £2.3m in 2020. The key drivers of the 2021 profit performance was mortgage growth, lower provisioning and higher swap fair values. As we enter 2022 interest rate rises and inflation may lead to volatility around swap-costs, affordability and interest rates.

During 2020, the importance of our operational resilience and business continuity planning had been demonstrated at a practical level. In 2021 we have continued to invest in the technology and processes to provide a stable, secure platform for the business going forward. We will also continue to invest in our people to ensure we strengthen our capacity and capability to meet the ongoing regulatory demands and expectations in risk and compliance.

As we navigated the crisis in 2020, we paused a number of our strategic initiatives in order to prioritise our focus on maintaining critical services for our existing members - ensuring we kept our branches open for our customers to access cash and mortgages could be written and completed or switched. In order to make transactions easier for all our members, we broadened our telephone service to enable customers unable to visit a branch to access their savings.

I am pleased that those strategic projects, such as upgrading our core IT systems and website development continued and completed in 2021 which enables us to further develop our digital proposition for our members.

We have a distribution strategy to deliver our products and services across our range of channels. We are committed to investing in the development of our IT and digital infrastructure and our branch network to provide the services our members need for the future.

Economic Climate

In 2021 the housing market continued to perform with a perhaps unexpected resilience. This was attributed largely to a number of government interventions and there is uncertainty and slower growth in house prices forecast for 2022, with the prospect of higher interest rates and inflationary pressures.

We are confident in our plans for the Corporate Plan period, however we are not complacent and there will undoubtedly be some adverse economic impacts as a result of the global pandemic and geopolitical challenges.

Society Performance and Strength

Our overall performance in the year has been strong. We entered 2021 with a healthy pipeline of mortgage business and were able to build on that position over the course of the first half of 2021 in response to the demand in the mortgage market.

Our profit after tax was £4.0m (£1.9m:2020), which was driven by asset growth, reduced provisions and increased swap fair values.

The gross capital as a percentage of Share and Deposit Liabilities (SDL) was 8.0% (7.5%:2020) and our CET1 ratio 19.2% (18.7%:2020), with regulatory capital of £77.8m (£72.2m:2020), providing the necessary strength and security for our members.

The net interest margin improved to 1.56% (1.49%:2020) mainly due to an increase in mortgage lending, partially achieved by the utilisation of surplus liquidity.

Mortgages

Due to the unexpected resilience of the housing market and demand for mortgages we delivered gross mortgage lending of £249m (£187m:2020). We were particulary proud that we were able to help more first time buyers in our heartland become home owners.

We were able to use improved credit risk analysis to help the product development teams deliver appropriately priced products and criteria and assist the underwriters with the processing of decisions.

> **The average loan to value (LTV) of the whole mortgage portfolio remains under 50% LTV.**

Our mortgage assets grew by 5.6% (3.2%:2020) to £962m at 31 December 2021 (£911m:2020) and we have maintained a strong pipeline of new business into 2022. There was inevitably stress on lenders and other elements of property transactions, such as legal and local authority services as the stamp duty holiday period closed in the second half of the year. We were prepared for the operational risk and supported our members as much as we could, completing a record £39m of advances in the month of June, thanks to the incredible efforts of the mortgage operation teams.

Whilst the pandemic has had an impact on our credit risk within the mortgage book, we've invested in our Risk function to develop our modelling and further strengthen our credit risk management. This development has helped us to support regional home ownership, and develop our lending criteria and products to meet the demands of our customers and brokers in some niche areas with our manual underwriting expertise and capacity. As a mutual, it is our intention to provide residential home loans, where appropriate returns for risk are available, in markets such as first time buyers and self-build, to help our communities and customers.

Arrears and Provisions

We were pleased to be able to help many of our borrowers, in line with the market generally, with the introduction and implementation of the Government payment deferral scheme. We have seen a return to normal mortgage payments for the vast majority of our customers and continue to work closely with those who still need additional support.

Arrears and forbearance metrics remain relatively low but we expect that the economic impact of the pandemic will continue to be felt for some time.

Loan loss provisions have decreased in the year from £1,040k to £695k at 31 December 2021 due to house price increases in the year and continued credit risk management together with improved arrears and forbearance performance.

Savings and Funding

We fund our lending largely through attracting and retaining Retail Savings. In 2021, we reduced the rates on some of our Savings products to better manage our liquidity, but did so whilst maintaining a range of fair and competitively priced products for our members. Alongside the recent Bank of England base rate rises we have increased our rates to provide a fair return to members.

We've seen growth of 4.4% in our savings balances (12%:2020) with total balances of £887m (£849m:2020).

We also continued to make use of the Bank of England's funding, refinancing over 2020 and 2021 £90m at year end from the Term Funding Scheme (TFS) to Term Funding Scheme with additional incentives for SME's (TFSME). It is important for the Society to maintain access to non-retail sources of funding, including wholesale markets.

At the end of the year we held £162m (£186m:2020) of liquid assets and our Liquidity Coverage Ratio (LCR) was 197% which is comfortably above the regulatory requirement. Liquidity as a percentage of SDL was of 15.5% (18.2%:2020).

Supporting our People, Members and Communities

Our commitment to supporting our loyal members and local communities will remain a focus for us through 2022. We're proud of the help we've been able to provide to some smaller local charities and food banks during the crisis.

We know that as a result of the crisis and its impact, more people in our communities will be vulnerable. We'll continue to do our utmost to ensure our members feel supported during this challenging time and equipped to deal with the difficult circumstances that we face together.

Looking Forward

Through decisive direction at the early stages of the pandemic, we established a continuity of critical services whilst also protecting the health and wellbeing of our people and we have been able to build on that operational resilience over 2021 to improve our services and deliver a number of strategic initiatives.

We expect that economic conditions over the next year will remain difficult and uncertain. However, with a strong leadership team and the loyal support of our people and members, we're stepping into 2022 cautiously but confident, prepared for the challenges ahead and looking forward to implementing further strategic developments

We'll continue to invest in and develop our people and strengthen our teams in business change and control to help us move forward and achieve our progressive goals.

Our substantial strategic investment in digital solutions and our branch network to provide products and services for our members' future needs will continue to be a focus for 2022 and beyond. We intend to provide members and brokers with greater choice as to how they access our products and services.

We will continue to review our operating model and support hybrid working arrangements as necessary to keep our colleagues and members safe whilst maintaining our customer service levels.

Chris Harrison

Chief Executive, Chris Harrison
15 March 2022

Directors' Report

Strategic Review

The Chief Executive's Strategic Report (pages 9 to 13 of the 2021 Annual Report & Accounts) provides more detailed information of the Society's performance for the year and factors impacting the results.

The key performance indicators are detailed below for ease of reference and for further information please refer to the CEO's Strategic report.

Key Performance Indicators		2021	2020
Balance Sheet	Assets	**£1,131m**	£1,101m
	Loans to members	**£962m**	£911m
	Retail shares and deposits	**£1,044m**	£1,013m
Operating Performance	Management expenses (% of mean assets)	**1.20%**	1.18%
	Interest Margin (% of mean assets)	**1.56%**	1.49%
	Mortgage arrears (>2months)	**£3.5m**	£5.7m
	Profit after tax	**£4.0m**	£1.9m
Financial strength	Regulatory capital	**£77.8m**	£72.2m
	Total capital ratio	**19.4%**	19.2%
	Liquid assets (% of shares and borrowings)	**15.5%**	18.2%

Our Annual Report & Accounts are prepared under Financial Reporting Standards (FRS) 102 and applies the measurement and recognition provisions of IAS39.

Business Review
Remaining Financially Robust

As we've steered our business through the challenging circumstances of the past year, our financial focus has been to prioritise long-term prosperity over short-term costs or benefits.

Overview of income statement	2021 £000	2020 £000
Net interest income	**17,390**	15,693
Other income and charges	**690**	(611)
Management expenses	**(13,346)**	(12,428)
Impairment charges	**294**	(305)
Profit before tax	**5,028**	2,349
Taxation	**(1,045)**	(423)
Profit after tax	**3,983**	1,926

Net Interest Margin

The Society's interest margin increased during the year from 1.49% to 1.56%. Management actions including management of existing mortgage and savings rates and new product pricing, as well as optimising our liquidity through additional lending, has contributed to the increase in margin. This has allowed continued investment in the business improving sustainability in the long term.

Other Income and Charges

This comprises fees and charges not accounted for within net interest margin such as agency commission, which has reduced materially following agency closures in 2020, and fair value gains on swaps in 2021, which has been driven by increasing yield curves. We use swaps solely for risk management purposes to hedge exposure to interest rate changes on our portfolio of fixed rate mortgage and savings products.

Management Expenses

The Society's management expenses include staff costs and all other operating costs necessary for the business to function including any overheads, depreciation and amortisation.

Our Board and Executive recognise the need to balance cost control with investment in the business and the high calibre people required to run the business effectively for its members in order to continue providing excellent products and services.

Management expenses were 1.20% of mean assets in 2021 (1.18%:2020). Over the course of 2021, the Society incurred additional direct costs year on year relating to investment in our people including performance related pay and bonus schemes, recruitment of additional resources and succession planning.

Impairment Charges

Loan loss provisions reduced in the year due to increases in HPI, updates to modelling assumptions and reduced credit risk as customers on payment deferrals return to monthly repayments

The Society had c.1,200 mortgages with a payment deferral applied for a period of between 1 and 6 months during 2020 and 2021. The vast majority of these customers were able to recommence payments following the deferral period; however a small number required further assistance.

Arrears Management

The number of mortgages in arrears (over 2 months) reduced from 60 to 34 in 2021. Total arrears outstanding at the year-end was £135k, with an aggregate balance of £3.5m (£5.7m:2020).

The Society's arrears figures remain comparable to its peer group which was the position in 2020 also. We show forbearance where appropriate, and at 31 December 2021, there were 30 (44:2020) cases on which forbearance was being applied.

Profit

The Society's profit after tax increased from £1.9m (2020) to £4.0m in 2021. Increased profit in the year was driven by interest earned on higher mortgage balances, a reduction in credit loss provision and an increase in the fair values of derivatives.

Capital

The preservation of capital will enable us to protect our members and sustain the future of the business. Our core equity tier (CET1) ratio remains strong at 19.2% and substantially higher than the minimum required by our Regulator.

Our capital strength continues to support the demands associated with the development and investment in the business which will support our future success. This financial strength also protects the Society against its principal risks and safeguards members' funds.

The minimum level of capital required to be held is set by the Prudential Regulatory Authority (PRA) and we ensure capital is maintained at the appropriate level for the normal business needs as well as significant stresses in the market.

At 31 December 2021, our gross capital (as a % of Shares and borrowings) was 8.0% (7.5%:2020). This is due to an increase in retail share balances during the year.

Assets

Mortgage assets increased by £51m and total assets increased by 2.7% to £1.1bn. This was achieved partly through utilising the excess liquidity gained at the end of 2020 through an increase in savings balances. Savings balances continued to increase throughout the year as spending decreased during the lockdowns and restrictions imposed on travel and other movements over the course of 2021.

Liquidity

The Society's liquid assets comprise cash and other assets that are easily converted to cash, which are shown in the statement of financial position. We ensure liquidity is optimised and of appropriate quality to meet our financial obligations as they fall due, under both normal and stressed scenarios. The increase in retail balances in 2020 led to higher liquidity levels, however the Society was able to use much of this liquidity to fund additional lending in 2021.

At 31 December 2021, our liquid asset ratio was 15.5% of Share & Deposit Liabilities (SDL) (18.2%:2020).

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR) which was 197% as at 31 December 2021, considerably above the regulatory requirement.

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR) which was 197% as at 31 December 2021, considerably above the regulatory requirement.

Going Concern and Long-term Viability

We've considered the potential economic ramifications of the market and geopolitical uncertainty on our current and future obligations and the Society's prospects over the Corporate Plan period of three years to 2024.

We expect uncertain conditions to continue and house price volatility. Affordability levels are expected to face pressure which could impact the business both in terms of arrears and forbearance levels and the volume of new mortgage applications received.

The latest profitability, liquidity and capital forecasts in the Plan have been reviewed and we're satisfied that our severe stress scenarios are survivable. We continue to forecast long-term viability with moderate growth and continued capital surplus.

The capital adequacy position was considered in the ICAAP stress scenarios, and reverse stress testing scenarios.

The Board considers the Society to be well positioned for the future, with sufficient levels of capital and liquidity to withstand stress events.

We do therefore, continue to prepare our financial statements on a going concern basis.

Post Year-end Events

The outlook for the UK economy remains highly uncertain. In addition to the ongoing coronavirus crisis and changes to the House Price Index (HPI), we've also considered the impact of the rising inflation and interest rate environment.

We've paid due regard to the events following our year-end, and don't consider that any have had a material effect on our current financial position.

Supplier Payment Policy

Our policy continues to be to discharge supplier invoices within the agreed payment terms. We know how important this is in the current economic climate. Average settlement time in 2021 was 30 days (30 days:2020).

Donations

During the year, we made various donations to charity totaling £8k (£5k:2020). This is in addition to Community Account payments of £120k (£198k:2020). Our Community Accounts supports clubs and charities, with an annual donation being made to each by the Society based on the balances of all the savings accounts related to the affinity group.

We also allow our people time to support charitable causes and a number of employees were assisted in this way in 2021.

No political gifts or donations were made during the year (NIL:2020).

Directors

Our directors are responsible for the maintenance and integrity of the corporate and financial information. UK legislation governing the preparation and dissemination of the Annual Report & Accounts may differ from that in other jurisdictions.

We're required by the Building Societies Act 1986 to prepare annual accounts for each financial year that provide a true and fair view of the income and expenditure of the Society and provide details of the Directors' remuneration. The Directors' responsibilities in respect of the preparation of the Annual Report & Accounts and Annual Business statement include:

- Ensuring suitable accounting policies are used in consistent manner
- Ensuring key accounting judgements are reasonable
- Ensuring compliance with UK GAAP
- Preparing the accounts on a going concern basis (unless it would be inappropriate to do so)

Directors who served during 2021 are listed on page 37. None of the directors had an interest in the shares or debentures of any associated body of the Society at any time during the financial year.

Section 172 of the Companies Act 2006 sets out the duties of any company director. This does not apply to our directors here at Furness as we are a building society. However, the UK Corporate Governance Code expects Board members to set out how Section 172 matters are considered in its decision making.

Our Board confirms it has acted in good faith and in a way that would be most likely to promote the success of the Society and the best interests of its members.

Disclosure of Information to the Auditor

At the date of approval of this report, each of our directors confirms that:

- So far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware.
- All steps necessary have been taken in order to be aware of any relevant audit information and establish that the Group's auditor is aware of that information.

Appointment of the Auditor

Mazars LLP have been appointed as the Society's external auditors for the financial year 2021.

Pillar 3 Disclosures

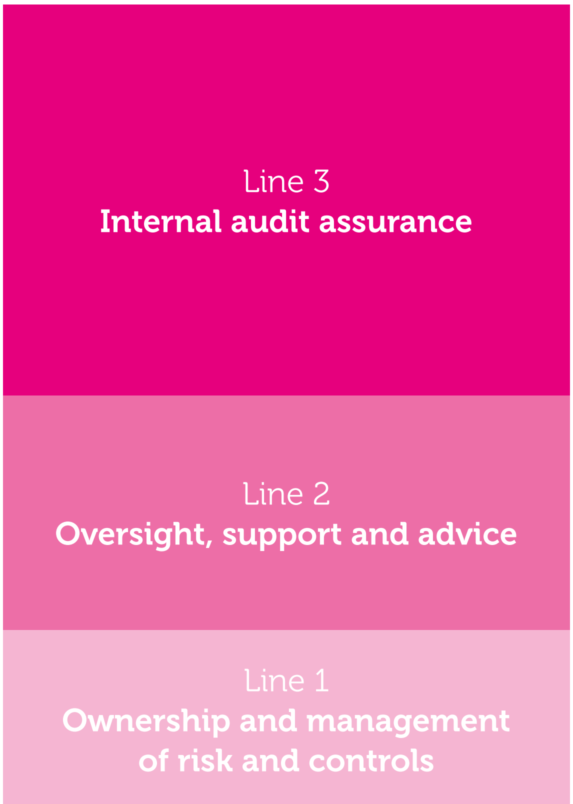
As required, we have set out further details of our risk management framework, including our risk exposures and assessment processes, in our Pillar 3 document which is available on our website.

Risk Review
Managing & Mitigating Risk

The Society operates in a business environment that contains a broad range of financial and non-financial risks. We have a formal risk management framework, including a detailed Board Statement of Risk Appetite.

The Board is responsible for the effective management of risks within its appetite and it delegates oversight of the implementation of the risk management framework, including policies to the Board Risk Committee. Key risk and performance indicators are monitored by the Board on a regular basis.

Our three lines of defence model ensures clear separation between the ownership and management of risk and controls (first line), oversight, support and advice (second line) and internal audit assurance (third line).



The Society takes risks seriously, the information below highlights the key risks to the Society in 2021:

Strategic Risk

These are the risks resulting from our strategic decisions which have the potential to impact the Society as a whole, our Corporate Plan and forecast results or performance over the planning period.

A crystallisation of strategic risk could affect the overall strength of the Society or impact the business model, or affect the Society's reputation.

The Board regularly discusses strategic issues and challenges the Corporate Plan proposed by Executives. It ensures strong levels of capital and liquidity are maintained to provide resilience against external factors which may cause stresses to the business.

Credit Risk

Credit risk is the risk that borrowers or counterparties to whom the Society has lent money may default on their obligation to repay the Society.

We expect the economic impact of the Covid-19 pandemic, and higher inflation and cost of living, to cause more hardship for some of our members in the future. Whilst we will offer support to these customers, we acknowledge that some may not be able to repay their mortgage. The Society holds security on customer mortgages in the form of property and land. A reduction in HPI impacts the value of these and may increase the loss in the event of default. Furthermore property and land also becomes harder to sell during an economic downturn and therefore increases the discount on the sale price of the property (forced sale discount), further increasing the Society's risk.

To protect the Society, we regularly stress test our mortgage book and assess the level of provisioning. We have developed a credit risk model to identify the appropriate level of stress we should apply. The 2021 provision decreased due to increases in HPI, updates to modelling assumptions within the credit loss model and a decrease in credit risk as customers who were on payment deferrals return to normal monthly repayments.

We'll continue to manage the risk that our borrowers may default on repayments through prudent lending criteria comprising detailed credit history assessments as well as robust property valuations should default occur. Fluctuations in the HPI impact the credit risk inherent in our mortgage book. In 2021 HPI increased by 10.2% on the previous year.*

Mortgage payments are monitored closely and swift action is taken to help any members who fall into arrears.

Our Credit Risk Committee meets regularly to consider all the risks associated with lending and reviews large and potential default accounts and the impact they have on our financial position.

Counterparty credit risk is controlled through adherence to the Board approved Treasury and Financial Risk Management policy and limits.

Liquidity and Funding Risk

Liquidity risk is the risk of the Society failing to meet its financial obligations as they fall due, resulting in the inability to support normal business functions and activity. There is also a risk of breaching regulatory requirements.

The nature of the Society's business involves maturity transformation whereby the Society borrows for relatively short terms and lends on mortgages for much longer periods. The mismatch also creates liquidity risk.

Funding risk is the inability to access funding markets or to do so at excessive cost. We manage this risk by ensuring we have no over-reliance on a single source of funding.

The Board-approved Internal Liquidity Adequacy Assessment (ILAAP) sets out the framework of risk management for the liquidity risks under both normal and stress conditions.

Liquidity and funding is monitored by the Assets and Liabilities Committee (ALCO) on a regular basis.

Basis Risk

Basis risk is the risk of divergence between several bases, such as SONIA and the Bank of England Base Rate. The Society manages its basis risk exposure mainly by setting limits against the relative exposures and carefully monitoring the positions.

Margin Risk

Margin risk is the risk of erosion between the interest rates charged to our mortgage borrowers and the interest rates paid to our savings account holders. Whilst the interest rate environment remains, as it has for some time, at historically low levels, in an exceptionally competitive market, margin decline is a significant risk which requires robust management.

The Board sets margin objectives within the Corporate Plan, and the Executive and Pricing Committees and ALCO monitor the position closely.

*Land Registry Data - UK House Price Index, October 2021

Operational Risk (including Covid-19 pandemic impact)

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events, and can arise across the whole business, with higher likelihood as we go through transformational change or other large projects.

One of the consequences of the unprecedented events of the pandemic has been the adoption of remote working - on a scale we'd never previously envisaged. Like many UK businesses, we were required to implement a remote working model, comprising some new temporary and longer-term processes, at pace. Examples of these include the development of new telephone and online services.

Meanwhile in branch, our staffing levels have been affected by team members needing to self-isolate to minimise the spread of coronavirus. We were able to maintain a branch service, albeit with reduced operating hours, throughout our network despite these challenges.

The deployment of new procedures and new IT equipment enabled us to maintain critical services for our members. However, the remote working model introduced additional operational risk including cyber risks and health and safety risks. We will continue to monitor these closely over the course of 2022.

We have robust systems and controls in place to mitigate operational risks and we have numerous software and other infrastructure protection in place to support operational resilience and mitigate against the risk of disruption from events such as cyber or data loss.

Process Risk

Process risk is the risk of loss as a result of staff not adhering to procedures/processes due to error/mistake, lack of training or unclear documents.

The Society has set up a number of systems, controls and processes to ensure that any mistakes are identified and corrected to prevent a significant loss to the Society.

Throughout 2021 awareness of Process Risk continued to increase as external concerns were highlighted in specific areas like Self Build customers. Staff are required to contact customers to remind them of their obligations should they wish to change the build due to material shortages for example. More focus is going into this area whilst the price of raw materials remains high, increasing the likelihood of alterations occurring to compensate.

Legal and Regulatory Risk

This is the risk of fines, public censure limitations on business or restitution costs arising from failure to understand, correctly interpret or comply with regulatory requirements. Regulatory changes are monitored and reported monthly to the Executive and Risk Committees.

Conduct Risk

Conduct risk is the risk of developing systems, behaviour and attitudes within the business which may cause customer detriment and do not deliver fair customer outcomes. A poor culture could also cause a risk of creating an environment in which staff behaviour is not open and honest which can result in reputational loss.

The ongoing Covid-19 pandemic heightened conduct risks through challenging trading and operating conditions and increased customer vulnerability. We have addressed these risks by focusing on treating our customers fairly, including those in financial difficulty, increasing governance with more regular management meetings and MI, improving our operational resilience and increasing our fraud prevention monitoring.

Our commitment to treating our customers fairly is demonstrated through our Conduct Risk policy and monitored through our conduct risk management information which is regularly reviewed by the Executive and Risk Committees.

Cyber Security Risk

A significant population of the Society staff continue to work remotely under a hybrid model with colleagues working from home and various branch locations. The underlying infrastructure is supporting this successfully. However, in an ever changing IT world a significant area of focus in 2022 will be the continued investment in cyber security to ensure our customers have confidence in the security of their data. In previous years the Society has invested in a number of toolsets to constantly react to emerging challenges in both IT server and networking environments. In 2022 the IT function will continue to fine tune these areas.

Pension Liabilities

The Group operates a Defined Benefit (DB) Pension Scheme which uses assumptions, based on current economic environments, for the valuation of the Scheme's assets and liabilities. There is a risk the Group may see a deterioration to capital or funds if actual experience differs from assumptions employed as a result of changes to market and economic conditions. A deterioration in the Scheme's liabilities would require an increase to cash contributions which could erode CET1 resources.

This Scheme provides pension benefits for a small number of pensioners and staff. It was closed to new entrants in 2000 and closed to future accrual in January 2017 - in common with many other schemes of this nature.

Following a competitive tender process, we completed a transfer of the trusteeship and governance of the DB Pension Scheme to Entrust Pension Limited. The new arrangements completed in March 2021 and now provide the full time professional expertise required for the complex management of the Scheme.

As a result of Strategic actions agreed with the Society to reduce the Scheme risk in 2021, the pension deficit reduced from £5.7m to £0.9m in 2021. This has a positive impact on the Society's balance sheet and we will continue to make the additional contributions agreed with the Trustees to reduce the deficit further.

Market Environment Risk

We expect that 2022 could be a challenging marketplace for both mortgages and savings and may put additional pressure on our ability to manage our net interest margin. We're also ensuring we're prepared for the prospect of further changes to the Bank of England base rate.

Climate Change Risk

We are aware of the potential long-term and structural risks that accompany the risks of climate change. As part of our standard underwriting process, we carefully consider the information we receive regarding the flood risk of properties. We also closely monitor any minimum standards for properties that are let (eg minimum Energy Performance Certificates) as part of our reviews for buy-to-let and Holiday Let properties. We'll continue to closely monitor any emerging trends in information as well as the regulatory requirements relating to property.

We completed a detailed review of our mortgage portfolio to identify any potential issues from climate risk and developed a climate risk framework. In 2021 we improved the data relating to the EPC ratings and flood data on the mortgage portfolio and will continue to develop and monitor our risk assessments.

Our People and Members

Recruiting and retaining high calibre people to help drive our business forward is critical to our long-term success.

At the very heart of our business is a close knit team of talented individuals who contribute to our performance and ensure the service we provide to our members is of the highest quality. It is important we continue to foster a nurturing and motivational environment that allows our people to succeed in their roles. We're continuing to invest in our cultural transformation which in turn is supporting our transition into a high performing financial institution.

The pandemic has required us to work in new and very different ways while delivering the same consistently good levels of customer service. We've all felt the absence of in-person interaction but our agile IT platforms have enabled us to remain working closely together, albeit more remotely than we ever have before. Nevertheless, we look forward to a return to a more normal working pattern which enables closer collaboration.

We have continued to lend throughout the pandemic and are delighted to have helped more people in our heartland become home owners. We were particularly pleased to provide more mortgages in 2021 to help first time buyers in our local areas to get on the housing ladder.

Community groups and charities that have been adversely affected by the pandemic have also been identified and in 2021, we awarded £8k in charitable donations which included supporting Barrow Foodbank and running our Furness Community Awards Scheme. This is in addition to more than £120k in Community Account payments, which includes £81k to St Mary's Hospice in Ulverston to help provide free invaluable care and comfort to people with advancing illness.

Ensuring we remain a safe, secure and accessible Building Society for our members is a top priority for us. We are proud that our Branches have remained open to support our members and local communities during the pandemic. We are continuing to invest in new services, savings and mortgage solutions as well as our office and branch infrastructure, to provide our members with a Building Society for the future that truly reflects the modern requirements of our evolving savings and spending habits.

The Year Ahead

For over 155 years we've remained an independent and mutual building society, committed to our vision of meeting the needs of our members. As we embark upon a new year, we remain unwavering in this purpose.

The past two years have presented challenges of a type and scale we haven't witnessed before. We've had to adapt quickly and adjust frequently but we've demonstrated a solid performance for our members.

Thanks to the direction and support from our Board, the strength of our leadership team and the resilience of our entire workforce, we are focused on ensuring a firm future for our people and members with investment in our digitisation and distribution network.

- We'll continue to help members own their own homes through quality mortgage products and our bespoke approach to lending through intermediary channels.
- We'll develop and deliver quality savings solutions and seek to provide a fair return on savings deposits, developing our savings proposition so that it remains relevant for current and future members.
- We'll invest in continued improvements to our IT infrastructure, digitisation and through the development of new channels of communication, internal and external.
- We'll strive to achieve sustainable and profitable growth as part of our revised Corporate Plan.
- We'll invest in our distribution network for the benefit of our people and members.

We are pleased to confirm that we are safe, secure and well positioned to support our members, as well as future generations of savers and homebuyers, just as we always have.

Approved by the Board of Directors on 15 March 2022

Statement of Directors' Responsibilities

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

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

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

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

In preparing the Group and Society Annual Accounts the Directors are required to:

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

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

Directors' responsibilities for Accounting Records and Internal Controls.

The Directors are responsible for ensuring that the Group:

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

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

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

Corporate Governance Report

Our Approach to Corporate Governance

Our approach is based on the principles and provisions of the UK Corporate Governance Code as published by the Financial Reporting Council in July 2018. Although we are not required to comply with the Code, we pay due regard to its contents as instructed by the Financial Conduct Authority and Prudential Regulatory Authority.

Please visit www.frc.co.uk for a copy of the Code.

Leadership

The leadership of our Society has continued to meet the increasing complexities of the regulatory and competitive business environments, which has changed at pace during the coronavirus crisis.

Our finances, operations and risks are effectively managed by our Executive Committee (ExCo), led by our Chief Executive. This Committee is also responsible for the delivery of all strategic corporate objectives approved by the Board.

Progress in these areas is subsequently reported into the Board and Board Committees by members of ExCo.

Our Board is committed to delivering the strategy through good governance, including effective and informed decision making supported by quality reporting together with robust risk management and compliance ensuring we meet our regulatory requirements.

> **Our Board is committed to delivering the strategy through good governance including effective and informed decision making.**

Board Role

Our long-term sustainability and success is determined by our Board which challenges, evaluates and approves our business strategy.

We draw on the experience and strategic insight of our Board members to ensure we continue to safeguard the interests of our members. This has been particularly invaluable as we have responded to the fluctuating circumstances of the past year.

Our Board also values the regular reports received from across the business and regularly invites colleagues to attend and present to the Board or committees. This ensures input from a variety of stakeholders is considered in decision-making.

Specific Board responsibilities include:

- Setting strategic aims and objectives
- Strategically directing maintenance of a sustainable business model and oversight of our operations
- Continuous development of our culture and values
- Determining our appetite for risk
- Ensuring adequate resources to achieve corporate goals
- Reviewing the effectiveness of financial and operational risk management policies
- Reviewing and oversight of the performance of the Senior Management team

Whilst some management activities and decisions are delegated to committees, the Board keeps certain matters for its own approval and these are set out in the Schedule of Matters reserved.

Board Composition

Our Board remains independent and comprises six Non-Executive Directors and two Executive Directors. Its structure ensures that no individual or group is able to dominate the decision making process and there is no undue reliance placed on any one person.

The fitness, propriety and wider commitments of all members are assessed regularly by our Chairman and Group Secretary, whilst the performance of the Board as a whole is reviewed by our Nomination Committee.

The time commitment requirement for all Non-Executive Directors is clear at appointment and reviewed in each year within the annual performance reviews. Our annual training plan ensures they are kept up to date with regulatory changes and other knowledge and skill requirements identified.

In accordance with regulatory requirements a number of our Non-Executive Directors and Executives have been allocated prescribed responsibilities as part of the Senior Management and Certification Regime and have been approved to perform these functions by the regulatory authorities.

All Directors submit themselves for re-election by members on an annual basis at our Annual General Meeting (AGM). New Directors are appointed by the Board when vacancies occur and they are also subject to election at the next AGM.

We're pleased to report that our Board and its members continue to perform effectively and impartially, providing the high level of skills and experience required to navigate the challenges ahead, as highlighted in the Chairman's Report.

Board Evaluation

We're committed to providing our members and employees with the best possible leadership to preserve the long-term future of the organisation.

We have conducted an annual examination of our Board's performance, a separate review of the Chairman's performance and that of individual Directors.

Whilst reviews of the Board and Committee effectiveness are undertaken on an annual basis, in line with best practice, periodically an independent review of the Board is undertaken. Deloitte LLP completed an independent Board evaluation exercise in June 2021. The Board accepted a number of recommendations and agreed an action plan.

Board Meetings

Our Board meets on both a scheduled and on-demand basis throughout the year, reflecting the ongoing requirements of the business and the need for strategic input and guidance from our Board members.

In 2020, at the outset of the crisis, our Board met regularly, enabling us to draw on our Board members' collective experience. This proved invaluable in helping guide us through the ever-changing landscape and subsequently mitigate the impact of the crisis on the business.

As we stabilised our response and maintained business as usual, the Board continued to meet regularly and continued to do so throughout 2021. Meetings were held remotely during lockdown to ensure regular meetings were upheld.

Formal and scheduled monthly meetings took place as usual and we held a total of 13 in 2021.

If a Director cannot attend a meeting they will receive the papers and provide feedback to the Chairman in advance. Occasionally when an urgent decision is needed, the Board may take a decision in writing which is ratified at the next full meeting.

Risk Management

Our Board is responsible for ensuring an effective system of internal control is in place for the management of risk.

We utilise the industry standard three lines of defence model which is designed to identify, understand and monitor business risks and manage them appropriately.

Line 1 – Business operations

The process of identifying and evaluating risks is delegated to our Management team who ensure controls are working successfully. This ensures the business is operating within the risk appetite agreed by our Board.

Line 2 – Oversight functions

Risk management committees and related functions provide oversight and support the business in identifying and managing risk. These areas provide assurance over the adequacy and operation of the risk and control environment. In the event that we don't have internal expertise or capacity, we engage third parties as necessary.

Line 3 – Independent assurance

Our Internal Audit function provides independent assurance, reporting to the Audit Committee. This 'backstop' line of defence assures that all risks have been identified and internal control systems and processes are being managed appropriately.

Board Review

The Board has undertaken a review of the adequacy and effectiveness of the risk and control framework in place throughout 2021 and is satisfied that the framework of internal controls meets the business' requirements.

The review considered:

- Annual reports from the Chairs of Audit, Board Risk, Nomination and Remuneration Committees
- Regular reports and updates from our Audit Committee
- Feedback from the annual visit from the Prudential Regulation Authority
- Board Risk Committee reports
- Detailed audit and compliance activities
- Monthly financial reports covering balance sheet, income statement and treasury risks
- Monthly reports from Chief Executive, Chief Risk Officer and Chief Compliance Officer

The Board has undertaken a review of the adequacy and effectiveness of the risk and control framework in place throughout 2021 and is satisfied that the framework of internal controls meets the business' requirements.

Our Board Committees

All Board Committees complete an annual self-assessment to ensure duties and responsibilities mandated by the Board have been effectively undertaken.

THE BOARD

AUDIT COMMITTEE	RISK COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE	EXECUTIVE COMMITTEE (EXCO)	ASSETS AND LIABILITY COMMITTEE (ALCO)
Chairman Nic Gower **Committee Members** Kim Rebecchi Phillip McLelland	**Chairman** Phillip McLelland **Committee Members** Nic Gower Andy Haywood Peter Rogerson Conrad O'Donnell	**Chairman** Graham Berville **Committee Members** Kim Rebecchi Nic Gower Chris Harrison	**Chairman** Kim Rebecchi **Committee Members** Phillip McLelland Andy Haywood Peter Rogerson	ExCo's role is to manage all aspects of the Society with delegated authority from the Board. All the chief officers are members.	ALCO's role is to optimise and manage the margin and liquidity to enable the business to deliver the member benefits within agreed risk parameters.

Audit Committee

Comprising only Non-Executive Directors, our Audit Committee maintains complete independence in order to assess the work of management and the assurance provided by Internal and External Audit functions.

The Committee invites Executive Directors together with representatives from the Internal and External Auditor to attend meetings and also regularly meets in private with the Internal and External Auditor and our Chief Risk and Chief Compliance Officers.

Specific responsibilities include:

- Monitoring the integrity of the business' external financial reporting including reviewing the appropriateness of significant financial reporting judgments.
- Reviewing the effectiveness of internal controls and risk management systems
- Ensuring satisfactory whistleblowing arrangements are in place and arrangements for investigation of any concerns
- Providing advice to the Board on whether the Annual Report & Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess our position, performance, business model and strategy
- Reviewing the activities and performance of the Internal and External Auditors and the Compliance function

Audit Committee activity in 2021

External Audit: Tracking and monitoring to completion of actions resulting from the KPMG Audit Management letter following the 2020 year-end Audit sign off.

Internal Audit: The need to effectively manage our resources during the pandemic - and whilst a large number of colleagues were required to work from home or isolate - meant that some of our planned Internal Audit reviews for 2020 and outstanding improvement actions were amended or deferred. All deferred Internal Audit activity and improvement actions were either completed later in 2020 or over the course of 2021 and was subject to close monitoring by the Committee.

Reporting: Receiving regular reports in respect of the Internal Audit reviews and Compliance monitoring which provided assurance regarding the control environment. In addition, receiving regular, detailed reports from the MLRO regarding AML and fraud monitoring. The reporting suite has continued to be improved throughout the year. The Committee received no whistleblowing reports during 2021.

Key Financial Reporting Judgements in 2021

Credit Risk – Impairment of Loans and Advances

Provisioning for loan impairment involves modelling and assumptions, such as forced sale discount, cure rate and, probability of default. Our modelling was updated in 2021 to take account of reduced credit risk as customers, previously on payment deferral schemes, resume normal repayments.

Revenue Recognition - Effective Interest Rate Accounting (EIR)

EIR accounting necessarily involves estimates and judgements. The EIR policy and expected mortgage lives assumptions have been reviewed by the Committee, and reduced from 1.5 months to 1 month.

Defined Benefit Pension Scheme

The Defined Benefit Pension Scheme valuation involves significant estimation judgements and assumptions which are based on professional actuarial advice. The committee have reviewed the data and are satisfied with the approach adopted.

Going Concern Basis of Preparation for the 2021 Annual Report & Accounts

The Audit Committee reviews and challenges reports and forecasts of business performance, including key indicators such as profitability, capital and liquidity. The assessments are subjected to stress scenarios and consideration of external factors. The Committee concluded the use of the going concern basis remains appropriate.

Fair, Balanced and Understandable

The Audit Committee provided advice to the Board which concluded the Annual Report & Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess our position, performance, business model and strategy.

Key Areas of Focus for 2022

In 2022 we'll continue the monitoring of the assurance framework and the completion of Audit and Compliance plans. We will also be considering the financial reporting in accordance with our responsibilities set out in the Committee Terms of Reference.

We'll also be monitoring control effectiveness and overseeing the findings of second and third line reviews and subsequent deliverables.

Board Risk Committee

The Board Risk Committee advises our Board on risk appetite, risk exposure and future risk strategy.

Specific responsibilities include:

- Recommending to the Board the amount of risk the business is willing to take in pursuit of strategic objectives
- Assessing the principal risks we face as a business
- Monitoring the effectiveness of the risk framework
- Ensuring the Risk function is adequately resourced
- Providing technical reviews of key policies and documents
- Oversight of the ICAAP capital and ILAAP liquidity position and forecasts

Board Risk Committee Activity in 2021

Covid-19: We're satisfied that our efforts to deal with the impact of the pandemic were well managed and the level of oversight appropriate. The risks to the health and wellbeing of our people and members were of paramount importance. Business risks were also managed effectively to ensure we continued to provide critical services for our members, including payments and mortgages.

Crisis Management: The Committee received regular reports regarding operational risks and credit risk affected by the pandemic.

Credit Risk: The Committee was engaged in and monitored the development of the credit risk modelling and Management Information which was subject to continued improvement during 2021.

Business Change: The business provided regular updates in respect of the risks associated with significant change projects.

Key Areas of Focus for 2022

In 2022 we'll be supporting ongoing developments to our risk management framework, climate risk management and second line functions. In addition, we will review our treasury approach to ensure our risk management framework supports the future development of the business.

We'll continue to monitor the changing regulatory environment as well as our ongoing cultural transformation programme and digital enhancements.

Nomination Committee

Our Nomination Committee oversees the selection process of Board members, Executive appointments and Senior Management team members as well as the allocation of Senior Management functions.

Specific responsibilities include:

- Considering the structure, size and composition of the Board on a minimum annual basis
- Recommending the appointment and removal of Executive and Non-Executive Directors to the Board
- Overseeing the performance appraisal of Executive and Non-Executive personnel

Nomination Committee Activity in 2021

Board Effectiveness: Reviewing the recommendations of an independent Board Effectiveness Review and approving the action plan for completion in the first half of 2022.

Annual Reviews: Conducting annual reviews into succession planning, management responsibilities map, Terms of Reference, role descriptions for the positions of Chairman and Vice Chairman, Director training and Committee membership.

Key Areas of Focus for 2022:

In 2022 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

In 2022 we'll be focusing on succession planning and ensuring the Board and leadership team receive the appropriate training and support to effectively carry out their duties.

Remuneration Committee

The Remuneration Committee is comprised solely of Non-Executive Directors and determines our overall remuneration policy as well as the remuneration packages for Executives.

Specific responsibilities include:

- Determining the terms, conditions and remuneration of our Chairman and Executive Directors
- Approving the terms, conditions and remuneration of Board appointed roles and the Senior Management team on the recommendation of the Chief Executive
- Approving the terms, conditions and remuneration of the Chief Executive on recommendation of the Chairman

Remuneration Committee Activity in 2021

Remuneration Code: Approving remuneration packages for Executive and Senior Management appointments and benchmarking our packages to ensure they remain relevant.

We also made selective awards to key staff as appropriate and committed to increasing the minimum wage to more than the Real Living Wage Foundation Scheme and its minimum threshold to a level of at least £10.50 per hour.

Bonus schemes: Approving Bonus scheme rules for 2022 and payments for 2021 performance, including an all colleague award paid in December 2021. In 2021 performance related bonuses were reinstated after 2020 bonuses were replaced by a requirement to ensure capital adequacy and act prudently on provisions.

A detailed report on Directors' remuneration can be found on page 40.

The detailed responsibilities of all our Board Committees are set in their respective Terms of Reference and are available on our website www.furnessbs.co.uk. Membership and meeting information, including the attendance of directors, is set out in the table on page 37.

Director Membership
31 December 2021

	Board	Audit	Risk	Nomination	Remuneration
Chairman	**G M Bervillle**	**N J Gower**	**P A McLelland**	**G M Berville**	**K L Rebecchi**
	K L Rebecchi	K L Rebecchi	N J Gower	K L Rebecchi	P A McLelland
	N J Gower	P A McLelland	A P Haywood	N J Gower	A P Haywood
	P A McLelland	–	P D Rogerson	C M Harrison	P D Rogerson
	A P Haywood	–	C O'Donnell	–	–
	P D Rogerson	–	–	–	–
	C M Harrison	–	–	–	–
	C O'Donnell	–	–	–	–
	S J Heron	–	–	–	–

Director Attendance
31 December 2021

Director	Board	Audit	Risk	Nomination	Remuneration
G M Bervillle	13/13	–	–	5/5	–
K L Rebecchi	13/13	8/8	–	5/5	6/6
N J Gower	13/13	8/8	7/7	5/5	–
P A McLelland	13/13	8/8	7/7	–	6/6
A P Haywood	11/13	–	5/7	–	6/6
P D Rogerson	13/13	–	7/7	–	6/6
C M Harrison	12/13	–	–	5/5	–
C O'Donnell	13/13	–	7/7	–	–
S J Heron	11/13	–	–	–	–
Total No Held	**13**	**8**	**7**	**5**	**6**

Team Biographies

Board of Directors & Other Officers

Graham Berville

Responsible for leading the Board of Directors, Graham has over 30 years' experience in the financial sector, including work with six mutual financial services companies. His sound understanding of governance, risk and conduct requirements has been instrumental in steering us through another highly unusual year.

Key roles:
Chairman
Chairman of the Nomination Committee

Wider commitments:
Chair of Keycare Limited
Chair of Yorkshire Cancer Research
Chair of Keycare Assistance Limited (Eire)

Chris Harrison

Chris joined us in 2017 and his strong vision and determination to instill a high performance culture have had a hugely positive impact on our transformation into a modern and competitive building society. He's committed to maintaining our strong community values and social responsibility and shaping a sustainable future for our members. Previous roles include President and CEO of Assurant Solutions Europe.

Key roles:
Chief Executive
Member of the Nomination Committee
Chairman of the Executive Committee
Member of the Assets and Liability Committee

Kim Rebecchi

Kim brings 30 years' experience in the mutual sector to our Board and is committed to instilling the benefits of mutuality to our members and local communities. Kim held a position at Leeds Building Society for 28 years, most recently as an executive member of the Board. Her in-depth knowledge of the sector and marketplace plays a critical role in supporting and guiding the Chairman and is valued greatly by the Management team.

Key roles:
Vice Chairman
Chairman of the Remuneration Committee
Member of the Nomination Committee
Member of the Audit Committee

Wider commitments:
Director of Redmayne Bentley Stockbrokers LLP
Director of Cynergy Bank Limited

Nic Gower

Nic has enjoyed a long and successful career, with the majority spent as a partner at PriceWaterhouseCoopers LLP, specialising in audit and risk management. As our longest-serving Board member, his experience and insight continues to be highly valued by all Directors.

Key roles:
Senior Independent Director
Chairman of the Audit Committee
Whistleblowing Champion
Member of the Board Risk Committee
Member of the Nomination Committee

Wider commitments:
Director of Manchester University
NHS Foundation Trust

Phillip McLelland

Phillip brings to the table experience from a number of directorship and senior finance roles including that of Finance Director at UK Asset Resolution, Provident Financial and the British Business Bank. He firmly believes in our 'member first' model and his proven commercial, finance and treasury expertise is helping guide us towards a successful future.

Key roles:
Chairman of the Board Risk Committee
Member of the Audit Committee
Member of the Remuneration Committee

Wider commitments:
Finance Director of Calisen

Andy Haywood

Andy has held numerous executive positions in the retail and commercial banking sectors throughout his career, including as Chief Operating Officer at N Brown plc and roles at The Cooperative Group and Boots. His skills and experience in complex areas of technology and change management play a vital role in protecting members and safeguarding our future.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee
Climate Change Champion

Wider commitments:
Chief Information Officer for Yorkshire Water

Peter Rogerson

Peter has worked in the financial industry for more than 30 years, including holding senior roles at Virgin Money and Alliance & Leicester. His extensive strategic, commercial and management experience is an asset to the Board, along with his passionate belief that everyone has the right to own their own home.

Key roles:
Member of the Board Risk Committee
Member of the Remuneration Committee

Wider commitments:
Trustee of Newcastle West End Food Bank Charity
Director of Redcar and Cleveland Voluntary Development Agency
Housing Community Interest Company
Director of Whitworth West Management Company Limited

Conrad O'Donnell

Conrad is a qualified chartered accountant with over 20 years' experience in the financial sector, notably holding senior positions in Morgan Stanley, Deutsche Bank and BNY Mellon. His financial management skills support our continued and long-term sustainability.

Key roles:
Finance Director
Member of the Board Risk Committee
Member of the Executive Committee
Chairman of the Assets and Liability Committee

Elaine O'Dwyer

Elaine joined us in January 2021 as Chief Risk Officer following an extensive career in the financial services industry including Tesco Bank, HBOS, MBNA and Santander. Elaine's experience spans across products, both secured/unsecured, customer lifecycle and has significant knowledge in Credit Risk. She is committed to reducing the carbon footprint of the Society.

Key roles:
Chief Risk Officer
Member of the Executive Committee
Member of the Assets and Liability Committee

Pam Mawson

Pam joined Furness in 1988 and holds extensive knowledge of our business, having held several managerial positions prior to her appointment as Group Secretary in 2015 and Chief Compliance Officer in 2017. Pam is passionate about working for a regionally-based building society whose customer interests are central to the culture of our organisation.

Key roles:
Group Secretary
Chief Compliance Officer
Member of the Executive Committee
Member of the Assets and Liabilities Committee

Directors' Remuneration Report

Our Remuneration Policy Attracting, retaining and remunerating talent

Attracting, retaining and motivating talented individuals whose performance contributes to the success and stability of our business is critical. However, we also recognise our responsibility to protect members' interests by spending money wisely and not paying more than necessary to attract and retain appropriate candidates.

The aim of our Remuneration policy is to ensure our approach is suitably balanced. Its key principles are to:

- Align to our Corporate Plan objectives for our overall growth and security.
- Set total remuneration at a competitive level which rewards strong performance.
- Provide a clear link to effective risk management consistent with risk appetite.
- Meet regulatory standards and good corporate governance.

Executive and Non-Executive remuneration

Executive remuneration consists of basic salary, variable bonus, pension contributions and other benefits. The Remuneration Committee reviews this annually on recommendation of the Chief Executive - and in the case of the Chief Executive, on recommendation of the Chairman. Summaries of the 2021 remuneration elements and packages are shown on page 42.

Non-Executive Directors are paid a fixed fee and there is an additional payment for the Chairman, Vice Chairman and Committee Chairs. The level is benchmarked against those paid by building societies of a similar size and complexity. The time commitment required in order to deliver their responsibilities within a regulated business environment is also considered. No bonus or variable pay is paid to the Non-Executive Directors.

Executive and Senior Leadership Bonus Scheme for 2021

Serving as an incentive to the achievement of corporate goals, our Senior Managers' Bonus Scheme includes key components including 'financial measures' and 'building future capability'.

The business has performed strongly against its 2021 financial and non-financial business objectives. An annual bonus was awarded to executive and senior management based on performance against specific targets and discretion used by the Remuneration Committee.

The specific measures contained in the bonus structure are:

- Mortgage Asset Growth
- Profit
- Margin (NII)
- Management Expenses
- Continually developing our risk and control environment and framework
- Increasing our people engagement
- Enhance our customer & broker service culture
- Enhancing our organisation infrastructure
- Key strategic projects

During 2020 there was no executive or senior management bonus paid as financial objectives were not met due to the unusual trading and operating conditions caused by the Covid-19 outbreak. However, a financial reward was made, outside the bonus schemes, to all colleagues (including the leadership team) in recognition of their hard work throughout the year.

Consulting our Members

We consider it best practice to hold an advisory vote on the recommendations contained within the Directors' Remuneration Report, although we are not required to do so. An appropriate resolution of this year's report will therefore be put to members at our Annual General Meeting.

In 2021, 9% of members voted and of those 91% did so in favour of the Directors' Remuneration Report.

Summary of Executive Remuneration 2021

Element	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
Basic Salary	Reflects level of accountability. Provides ability to attract and retain individuals through competitive but affordable rates of pay.	Once set, future increases are linked to personal performance and peer group benchmarking.	Personal performance against the role profile and the delivery of personal objectives.	Individuals developing in a role may be paid below market rate until they are fully performing. Adjustments may be made if a role changes significantly or moves out of line with the market.
Bonus	Linked to the delivery of annual business plan targets including shared strategic objectives.	Challenging, but achievable objectives are aligned with the Corporate Plan. The Chief Risk Officer provides assurance that the scheme design does not incentivise inappropriate behaviours.	Corporate measures for 2021 are: • Profit • Mortgage Asset Growth • Average Mortgage Margin • Expenses & Cost Management • Risk & Control • Culture, Customer, Broker & People • Shared Strategic Objectives. Personal objectives are set by the Chief Executive and reviewed by the Remuneration Committee.	The bonus amount varies between 0% and 40% depending on performance against a number of specific measures, agreed by the Remuneration Committee. Payment of 50% of the award is deferred for three years. Deferred bonus payments may be withdrawn or adjusted in the following circumstances: a) Employee has tendered their resignation/ or given notice and/or has taken a long term career break. b) participated in or was responsible for conduct which resulted in significant losses or regulatory consequences for the Society or relevant business unit or there is reasonable evidence of fraud, serious dishonesty or other wrongdoing on the part of the Bonus Recipient which would have resulted in the bonus not being paid had the Society known about it at the time the relevant award was declared; or c) failed to meet appropriate standards of fitness and propriety; Or where the Society has: d) suffered a material failure of risk management; or been required to restate its accounts to a material extent. a long term career break.
Pension	Provides market competitive remuneration.	Pension contributions are on membership of the Society's Defined Benefit Contribution Scheme. Cash equivalent may be offered if requested.	Not applicable.	Matched contributions up to 10% of basic salary.
Benefits	To align Executive total remuneration broadly with the market.	The principle benefits are: • life assurance • private medical insurance • company car allowance • 6 months' notice period • other benefits eg relocation assistance may be provided based on individual circumstances.	Not applicable.	Not applicable.

Executive Directors Fees

2021	Salary	Discretionary Staff Award / Bonus / Ex Gratia	Taxable Benefits	Sub Total	Defined Contribution Scheme	Total
	£	£	£	£	£	£
C M Harrison	223,212	80,357	17,646	321,215	-	**321,215**
C O'Donnell	162,045	58,336	9,804	230,185	16,204	**246,389**
S J Heron [1]	108,362	134,446	9,877	252,685	30,836	**283,521**
Total	**493,619**	**273,139**	**37,327**	**804,085**	**47,040**	**851,125**

[1] Sue Heron retired from the Society on 31 December 2021 and in relation to this received compensation of £115,000.

2020						
C M Harrison	219,914	1,000	17,643	238,557	-	**238,557**
C O'Donnell	159,650	1,000	8,102	168,752	15,965	**184,717**
S J Heron	106,760	1,000	9,875	117,635	10,676	**128,311**
Total	**486,324**	**3,000**	**35,620**	**524,944**	**26,641**	**551,585**

In 2020 Executives were awarded a discretionary staff award of £1,000 each. There was no executive or senior management bonus paid for the year's performance due to the unusual trading and operating conditions.

Non-Executive Directors Fees

Name	2021	2020
	£	£
G M Berville	**48,575**	**49,364**
N J Gower	**32,267**	**31,834**
K L Rebecchi	**34,082**	**33,620**
P A McLelland	**32,086**	**32,136**
A P Haywood	**26,942**	**26,683**
P D Rogerson	**26,627**	**27,109**
Total	**200,579**	**200,746**

Non-Executive Directors' fees include taxable travel expenses paid.

K L Rebecchi
Chairman of the Remuneration Committee
15 March 2022

Independent Auditor's Report

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

Opinion

We have audited the annual accounts of Furness Building Society (the 'Society') for the year ended 31 December 2021 which comprise the Group and Society Statement of Comprehensive Income and Other Comprehensive Income, Group and Society Statement of Changes in Equity, Group and Society Statement of Financial Position, Group Cash Flow Statement, and related notes, including a summary of significant accounting policies.

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

In our opinion, the annual accounts:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual accounts section of our report. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and Society's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Society's future financial performance;
- Assessing the reasonableness of the Society's 5-year Corporate Plan, ICAAP and ILAAP documentation, which include management's stress testing, and form the base of their Going Concern assessment;

- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing and challenging key assumptions and mitigating actions put in place in response to Covid-19;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the annual accounts on going concern.

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

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

Key audit matters

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

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

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

Key Audit Matter	How our scope addressed this matter
Credit risk – impairment of loans and advances to customers Refer to the Group's disclosures on page 66 (Note 14), associated accounting policies on page 58 and management's critical judgements and estimates set out on page 60. Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of management estimation in calculating the collective provisions. In addition to specific provisions on loans with default indicators, FRS 102 requires a collective provision on the performing portfolio for losses incurred but not yet identified by the Society. The collective impairment is derived by management from a model that uses a combination of the Group's and Society's historical experience and, due to the Group's and Society's limited loss experience, external data, adjusted for current conditions. In particular, the impairment assessment is most sensitive to movements in the house price index (HPI), the forced sale discounts (FSD) applied to collateral values and the probability of default (PD) of the loans.	Our audit procedures included, but were not limited to: • Testing the design and implementation and the operating effectiveness of the key controls operating at the Group and Society in relation to the credit processes (loan origination and approval, loan redemptions and arrears reporting) • Testing the completeness and accuracy of loans that are in specific provision and recalculating the provision charge; • Reviewing and challenging changes to management overlays in particular those that had been recognised in 2020 (e.g. in relation to payment deferrals etc.); • Testing the integrity of the spreadsheet model used to calculate the collective impairment provision. This included testing of input data (e.g. HPI) used in the model; • Comparing the Group's and Society's key assumptions (PD and FSD) with similar lenders and loan portfolios with similar characteristics and assessing whether these assumptions were consistent with industry benchmarks. We then developed an independent estimate using the Group's and Society's model and reasonable assumptions; • Performing sensitivity analysis over the key assumptions of PD, FSD and HPI; and • Assessing the adequacy of the related disclosures in the annual accounts. Our observations Based on the audit procedures performed, we concluded that management has appropriately applied the stated accounting policy and the requirements of FRS 102, in relation to the assessment of impairment of loans and advances to customers and the related disclosures in the annual accounts.

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

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

Overall materiality	Group: £780 000 (2020: £724 000) Society: £757 000 (2020: £710 000)
How we determined it	1% of Reserves
Rationale for benchmark applied	We consider that reserves are the most appropriate benchmark to use for the Group and Society, whose strategy is to provide mortgages, savings products, and other financial services for the mutual benefit of members and customers and not one of profit maximisation. Further, reserves as a benchmark is supported by the fact that regulatory capital is a key benchmark for management and regulators, where reserves are an approximation of regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the annual accounts exceeds materiality for the annual accounts as a whole. We set performance materiality at £567,000 which represents 75% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £23,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

Our group audit scope included an audit of the Group's and the Society's annual accounts. Based on our risk assessment, we undertook a full scope audit of the Group and Society and undertook specific review procedures on the material balances in the trading subsidiary.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

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

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts, or our knowledge obtained in the course of 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 annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on the Annual Business Statement and the Directors' Report

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Society; or
- the Society's individual annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the directors are responsible for the preparation of the annual accounts 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Group's 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 Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 annual accounts.

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

Based on our understanding of the Group, Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory and supervisory requirements of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), anti-money laundering regulations and the General Data Protection Regulation (GDPR), and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those other laws and regulations that have a direct impact on the preparation of the annual accounts, such as the Building Societies Act 1986 and UK tax legislation.

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

- Gaining an understanding of the legal and regulatory framework applicable to the Group and Society, the structure of the Group, the industry in which they operate, and considering the risk of acts by the Group and Society which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group and Society are in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance; and
- Focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts based on our general commercial and sector experience, and through discussions with the directors and Chief Risk Officer, inspection of the Group's and Society's regulatory and legal correspondence and review of minutes of directors and Audit Committee meetings in the year.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the annual accounts, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to loan loss provisions.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected, or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the directors on 9 September 2020, to audit the annual accounts for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.

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

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

This report is made solely to the Society's members as a body in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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.

Tim Hudson (Senior Statutory Auditor)
for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
Mazars LLP
One St Peter's Square
Manchester
M2 3DE
15 March 2022

Furness Building Society Annual Accounts

Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Interest receivable and similar income	2	**24,053**	**23,948**	23,576	23,453
Interest payable and similar charges	3	**(6,663)**	**(6,663)**	(7,883)	(7,883)
Net interest income		**17,390**	**17,285**	15,693	15,570
Fee and commissions receivable		**72**	**72**	75	75
Fees and commissions payable		**(179)**	**(179)**	(633)	(633)
Other operating income		**126**	**126**	62	66
Net gain/(loss) from other financial instruments at fair value through profit and loss	4	**662**	**662**	(112)	(112)
Total net income		**18,071**	**17,966**	15,085	14,966
Administrative expenses	5	**(12,689)**	**(12,665)**	(11,749)	(11,738)
Depreciation and amortisation	16/17	**(657)**	**(657)**	(679)	(679)
Operating profit before impairment losses and provisions		**4,725**	**4,644**	2,657	2,549
Provisions for liabilities	24	**9**	**9**	(3)	(3)
Impairment credit/(charge) on loans and advances	14	**294**	**292**	(305)	(304)
Profit before tax		**5,028**	**4,945**	2,349	2,242
Tax expense	8	**(1,045)**	**(1,030)**	(423)	(399)
Profit for the financial year		**3,983**	**3,915**	1,926	1,843

Other Comprehensive Income

	Notes	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Profit for the financial year		**3,983**	**3,915**	1,926	1,843
Changes in fair value of debt securities and treasury bills:					
- valuation losses taken to equity		**(3)**	**(3)**	(10)	(10)
Actuarial gain/(loss) recognised on the pension scheme liability	29	**3,548**	**3,548**	(3,014)	(3,014)
Taxation (charge)/credit on Other Comprehensive Income	8	**(492)**	**(492)**	645	645
Total Comprehensive Income/(Loss) for the year		**7,036**	**6,968**	(453)	(536)

The Notes on pages 56 to 83 form an integral part of these Accounts.

Statement of Changes in Equity

Group 2020	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2020		**71,436**	**28**	**71,464**
Profit for the year		1,926	-	1,926
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(3,014)	-	(3,014)
Movement in deferred tax relating to the Pension Scheme		645	-	645
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(10)	(10)
Other Comprehensive Income for the year		**(2,369)**	**(10)**	**(2,379)**
Total Comprehensive Income for the year		**(443)**	**(10)**	**(453)**
Balance as at 31 December 2020		**70,993**	**18**	**71,011**
Group 2021				
Balance as at 1 January 2021		**70,993**	**18**	**71,011**
Profit for the year		3,983	-	3,983
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme Liability	29	3,548	-	3,548
Movement in deferred tax relating to the Pension Scheme		(492)	-	(492)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(3)	(3)
Other Comprehensive Income for the year		**3,056**	**(3)**	**3,053**
Total Comprehensive Income for the year		**7,039**	**(3)**	**7,036**
Balance as at 31 December 2021		**78,032**	**15**	**78,047**

The Notes on pages 56 to 83 form an integral part of these Accounts.

Statement of Changes in Equity continued

Society 2020	Notes	General reserves £000	Available-for-sale reserves £000	Total £000
Balance as at 1 January 2020		**69,203**	**28**	**69,231**
Profit for the year		1,843	-	1,843
Other Comprehensive Income for the year:				
Actuarial loss recognised on the Pension Scheme Liability	29	(3,014)	-	(3,014)
Movement in deferred tax relating to the Pension Scheme		645	-	645
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(10)	(10)
Other Comprehensive Income for the year		**(2,369)**	**(10)**	**(2,379)**
Total Comprehensive Income for the year		**(526)**	**(10)**	**(536)**
Balance as at 31 December 2020		**68,677**	**18**	**68,695**
Society 2021				
Balance as at 1 January 2021		**68,677**	**18**	**68,695**
Profit for the year		3,915	-	3,915
Other Comprehensive Income for the year:				
Actuarial gain recognised on the Pension Scheme Liability	29	3,548	-	3,548
Movement in deferred tax relating to the Pension Scheme		(492)	-	(492)
Changes in fair value of debt securities:				
Taken through Other Comprehensive Income		-	(3)	(3)
Other Comprehensive Income for the year		**3,056**	**(3)**	**3,053**
Total Comprehensive Income for the year		**6,971**	**(3)**	**6,968**
Balance as at 31 December 2021		**75,648**	**15**	**75,663**

The Notes on pages 56 to 83 form an integral part of these Accounts.

Statement of Financial Position

For the year ended 31 December 2021

Assets	Notes	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Liquid assets:					
Cash in hand and balances with the Bank of England	10	**140,660**	**140,660**	164,856	164,856
Treasury bills and similar securities	9	**10,159**	**10,159**	2,595	2,595
Loans and advances to credit institutions	10	**10,928**	**10,661**	11,644	11,377
Debt securities	11	**-**	**-**	5,722	5,722
Derivative financial instrument assets	12	**2,437**	**2,437**	273	273
Loans and advances to customers:					
Loans fully secured on residential property	13	**958,001**	**954,946**	906,697	903,325
Loans fully secured on land	13	**3,813**	**3,813**	4,406	4,406
Investments in subsidiary undertakings	15	**-**	**912**	-	1,292
Other assets	18	**1,831**	**1,831**	1,832	1,832
Intangible fixed assets	16	**1,022**	**1,022**	626	626
Tangible fixed assets	17	**1,005**	**1,005**	1,266	1,266
Prepayments and accrued income	19	**912**	**912**	768	768
Total assets		**1,130,768**	**1,128,358**	1,100,685	1,098,338

Liabilities	Notes	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Shares	20	**886,918**	**886,918**	849,463	849,463
Amounts owed to credit institutions		**7,510**	**7,510**	9,026	9,026
Amounts owed to other customers	21	**149,292**	**149,292**	154,902	154,902
Subordinated liabilities	26	**4,998**	**4,998**	4,993	4,993
Derivative financial instrument liabilities	12	**186**	**186**	3,294	3,294
Other liabilities	22	**1,238**	**1,223**	973	955
Accruals and deferred income	23	**1,539**	**1,528**	1,183	1,170
Provisions for liabilities	24	**164**	**164**	156	156
Retirement benefit obligations	29	**876**	**876**	5,684	5,684
Total liabilities		**1,052,721**	**1,052,695**	1,029,674	1,029,643

Reserves	Notes	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
General reserves		**78,032**	**75,648**	70,993	68,677
Available-for-sale reserves		**15**	**15**	18	18
Total reserves attributable to members of the Society		**78,047**	**75,663**	71,011	68,695
Total reserves and liabilities		**1,130,768**	**1,128,358**	1,100,685	1,098,338

The Notes on pages 56 to 83 form an integral part of these Accounts.

The Accounts were approved by the Board of Directors on 15 March 2022 and were signed on its behalf by:

G M Berville
Chairman

K L Rebecchi
Vice Chairman

C M Harrison
Chief Executive

Group Cash Flow Statement

Cash flows from operating activities	Notes	Group 2021 £000	Group 2020 £000
Profit before tax		**5,028**	2,349
Adjustments for:			
Depreciation and amortisation	16/17	**657**	679
Profit on disposal of tangible fixed assets		**(3)**	-
Interest on subordinated debt	3	**322**	338
(Decrease)/increase in impairment of loans and advances	14	**(294)**	305
Total		**5,710**	3,671
Changes in operating assets and liabilities			
(Increase)/decrease in prepayments, accrued income and other assets		**(943)**	897
Increase/(decrease) in accruals, deferred income and other liabilities		**196**	(107)
Increase in loans and advances to customers		**(55,689)**	(26,504)
Increase in shares		**37,455**	91,143
(Decrease)/increase in amounts owed to credit institutions and other customers		**(7,126)**	1,814
Increase in loans and advances to credit institutions		**3,166**	(1,548)
Decrease in retirement benefit obligation		**(1,260)**	(905)
Taxation paid		**(251)**	(57)
Net cash (used in)/generated by operating activities		**(24,452)**	64,733
Cash flows from investing activities			
Purchase of debt securities		**(10,113)**	-
Disposal of debt securities and treasury bills	9/11	**8,220**	6,009
Purchase of tangible fixed assets	17	**(187)**	(178)
Disposal of tangible fixed assets		**20**	-
Purchase of intangible assets	16	**(622)**	(516)
Net cash (used in)/generated by investing activities		**(2,682)**	5,315
Cash flows from financing activities			
Interest paid on subordinated debt	3	**(322)**	(338)
Net cash used by financing activities		**(322)**	(338)
Net (decrease)/increase in cash and cash equivalents		**(21,746)**	73,381
Cash and cash equivalents at 1 January		**170,918**	97,537
Cash and cash equivalents at 31 December	**10**	**149,172**	170,918

The Notes on pages 56 to 83 form an integral part of these Accounts.

Notes to the Accounts

01 | Principal Accounting Policies

1.1 General information

Furness Building Society is incorporated in the United Kingdom under the Building Societies Act 1986. The address of its registered office is 51-55 Duke Street, Barrow-in-Furness, Cumbria LA14 1RT.

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

1.2 Basis of preparation

Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Northern Ireland' (FRS 102), and in accordance with the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998. The Society has also chosen to apply the recognition and measurement provisions of IAS 39, 'Financial Instruments: Recognition and measurement'.

The Society is included in the consolidated Annual Accounts, and is considered to be a qualifying entity under FRS 102 paragraphs 1.9 to 1.13. The following exemptions available under FRS 102 in respect of certain disclosures for the parent Society Annual Accounts have been applied:

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

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

1.3 Going concern

Annual Accounts have been prepared on a going concern basis as set out in the Directors' Report on page 18. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue. In addition, there must be no indication from our regulators that they doubt our ability to continue as a going concern.

Covid-19 was considered as a part of the overall going concern assessment, including the impact on the Society's liquidity, capital position and operational resilience. The Board has considered a number of stress scenarios and has concluded the assumptions in the assessment are relevant and the Society has sufficient capital and liquidity to continue as a going concern.

1.4 Basis of consolidation

The accounting policies below and the Statement of Comprehensive Income and Statement of Financial Position incorporate the Society and its subsidiary undertakings (collectively referred to as the Group) all of which have year-ends of 31 December. Uniform accounting policies are used throughout the Group and are consistent with the prior year. Investments in subsidiary undertakings are stated at cost less any provision for impairment.

1.5 Interest

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

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

The EIR policy remains consistent with prior years. An annual review of the assumptions has taken place and the expected life of a mortgage, a key assumption in the EIR calculation, has consequently been reduced thus reducing the EIR asset. Additionally, early redemption charges (ERCs) have been included as part of the effective interest rate whereas previously they had been excluded from the calculation. ERCs are within the contractual terms of the mortgage and can be measured reliably. Inclusion of ERCs has resulted in an increase to EIR asset on the balance sheet.

1.6 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.5).

Other fees receivable are recognised on the accruals basis when all contractual obligations have been fulfilled.

Other 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, and are inclusive of VAT where applicable.

1.7 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or Other Comprehensive Income.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years. Corporation tax is charged on the profit on ordinary activities for the year as adjusted for taxation purposes.

Deferred taxation

Provision for deferred tax is made on a non-discounted basis in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date. Timing differences represent differences between gains and losses recognised for tax purposes in periods different from those in which they are recognised in Annual Accounts. No deferred tax is recognised on permanent differences between the Group's taxable gains and losses and its results as stated in the Annual Accounts. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

1.8 Financial assets

At initial recognition the Group classifies non-derivative financial assets either as loans and receivables or as available-for-sale assets. No assets have been classified as held to maturity.

a) Loans and receivables

'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. The Group's cash in hand and balances with the Bank of England, as well as loans and advances to credit institutions and customers are classified as loans and receivables.

b) Available-for-sale financial assets

'Available-for-sale' investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise treasury bills, gilts and debt securities. All available-for-sale investments are measured at fair value after initial recognition. Gains or losses on available-for sale financial assets are recognised in other comprehensive income, except for impairment losses, until the financial asset is derecognised. At that time the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Interest income is recognised in profit or loss using the effective interest rate method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

c) Financial assets at fair value through profit or loss

The Group uses derivative financial instruments only for risk management purposes, and not for trading purposes. Derivatives are recognised at fair value in the Statement of Financial Position with the gain or loss on remeasurement recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument 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 inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows 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%.

These hedging relationships are discussed in d) below.

d) Fair Value Hedges

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

The Group enters into credit support agreements, which protect against counterparty default in respect of hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest income'.

1.9 Term Funding Scheme (TFS), Term Funding Scheme with additional incentives for SMEs (TFSME) and Sterling Monetary Framework (SMF)

Loans and advances over which the Group transfers its rights to the collateral thereon to the Bank of England under the TFS/TFSME/SMF are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. TFS/TFSME/SMF borrowings are recognised in 'Amounts owed to other customers'.

1.10 Financial liabilities

All financial liabilities are initially recognised at cost plus directly attributable transaction costs. Subsequent measurement of financial liabilities is at amortised cost using the effective interest rate method, except for those financial liabilities measured at fair value through Profit or Loss.

1.11 Derecognition of financial assets and liabilities

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit and loss.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability extinguished, or transferred to another party, and the consideration paid shall be recognised in the profit and loss.

1.12 Impairment of financial assets

a) Assets carried at amortised cost

Individual assessments are made of all loans and advances against properties and land which are in possession, in arrears, are subject to forbearance activities or other significant cases of concern. Individual impairment allowances are made against those loans and advances where there is objective evidence of impairment, which may include:

- significant financial difficulty of the borrower/issuer;
- deterioration in payment status;
- renegotiation of the terms of an asset due to financial difficulty of the borrower or issuer, including granting a concession/ forbearance to the borrower or issuer;
- becoming probable that the borrower or issuer will enter bankruptcy or other financial reorganisation; and
- any other information discovered during regular review suggesting that a loss is likely.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. In considering expected future cash flows, account is taken of any discount which may be needed against the value of the property at the Statement of Financial Position date thought necessary to achieve a sale and anticipated realisation costs.

In addition the Group assesses at least quarterly whether there is objective evidence to suggest a financial asset or group of financial assets is likely to be impaired. Where a collective assessment is made, each category or class of financial asset is split into groups of assets with similar credit risk characteristics. The Group measures the amount of impairment loss by applying estimated loss factors based on the Group's experience of default, loss emergence periods, the effect of movements in house prices and any adjustment for the expected forced sales value. Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, management may elect to apply an overlay to the impairment allowance.

The amount of impairment loss is recognised immediately through the Statement of Comprehensive Income and a corresponding reduction in the value of the financial asset is recognised.

b) Available-for-sale assets

The Group assesses at each Statement of Financial Position date whether there is objective evidence that an available-for-sale asset or group of available-for-sale assets is impaired.

Available-for-sale assets are impaired and impairment losses incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of those assets. Loss events may include default of a counterparty or disappearance of an active market for the assets. Where objective evidence exists, that the asset has been impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss. Impairment is measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised.

1.13 Offsetting

Financial assets and liabilities are offset and the net amounts presented in the Annual Accounts only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and balances with the Bank of England plus loans and advances to credit institutions with an original maturity of less than 3 months. Cash pledged with credit institutions as collateral in respect of derivative contracts is not included in these balances.

1.15 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use.

The Group capitalises the cost of additions and major alterations to office premises and equipment. In the case of freehold and leasehold premises with a term remaining in excess of 50 years, depreciation of the original cost of these is charged to the Statement of Comprehensive Income over the lower of 50 years and their estimated useful life.

The cost of other fixed assets is written off on a straight line basis over the estimated useful lives as follows:

- Equipment, fixtures, fittings and vehicles are written off over periods between 2 and 10 years or their estimated useful life if lower.
- Leasehold premises with less than 50 years unexpired are written off over the unexpired period of the lease.

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

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Comprehensive Income and included in 'Other operating income/(charge)'.

1.16 Intangible assets

Purchased software and costs directly associated with the 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 accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over the estimated useful lives of the software, which are between 3 and 5 years.

Amortisation is charged to depreciation and amortisation in the Statement of Comprehensive Income. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

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

1.17 Leasing

The leases entered into by the Group are operating leases. All payments under operating lease contracts are charged to the Statement of Comprehensive Income on a straight line basis over the life of the lease.

1.18 Liquid assets

Debt securities are initially measured at fair value, which is normally the transaction price to the Group, adjusted to exclude interest accrued at the date of purchase. Such assets are subsequently carried at fair value and the changes in fair value are recognised through the available-for-sale reserve. Provision is made for any potential impairment in value if necessary. Where there is a permanent impairment of a liquid asset, a provision is made so as to write down the cost of the security to its recoverable amount.

1.19 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

a) Short term benefits

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

b) Pension costs

i. Defined Benefit Pension Plan

The Group operates a defined benefit pension scheme and 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.

Any remeasurements of the net pension obligation are recognised in the Statement of Comprehensive Income. Actuarial gains or losses are recognised in Other Comprehensive Income. Any past service costs or interest costs, which reflect the increase in the defined obligation which arises as benefits are one period closer to settlement, are recognised in operating profit.

See Note 29 for further information regarding the Defined Benefit Pension Plan.

ii. Defined Contribution Scheme

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 Statement of Comprehensive Income as contributions become due. The amount charged represents the contributions payable to the scheme in respect of the accounting period.

1.20 Provisions

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

1.21 Dividends

On occasions the Society's wholly owned subsidiaries may make dividend payments to their parent. Such dividends are decided at the discretion of the subsidiaries' Boards of Directors and are reflected in the Annual Accounts of the respective entities when this occurs. Dividends are only recognised by the Society when approved and paid.

1.22 Critical judgements and estimates in applying the accounting policy

The Group makes estimates and judgements that affect the reported results and amounts of assets and liabilities. These are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

a) 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. Impairment allowances are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates, house prices and forced sale discount), customer behaviour (for example, default rates) and the length of time expected to complete the sale of properties in possession. Impairment allowances are therefore affected by changes to these assumptions.

A key assumption is the expected level of defaults in each category of impairment – the probability of default. The Group has calculated collective default rates from its experience over recent years. During that period the Group has had a low number of possessions, and in addition the default rates may have been depressed by the Group's forbearance policy. As a result management has applied an uplift to the actual default rates experienced in its collective impairment assumptions.

The collective impairment policy has remained consistent with the prior year. An annual review of assumptions has taken place and updates have been made as appropriate.

The Group has applied a sensitivity analysis to its critical judgements. A movement to the Society's existing probability of default assumption of 0.1 percentage points would change the collective impairment provision on loans and advances to customers by +/- £0.03m. A movement to the existing forced sale discount of 1.0 percentage points would result in a change to the total provision requirement of +/- £0.08m.

b) Effective Interest Rate (EIR)

The calculation of an Effective Interest Rate (EIR) requires the Society to undertake an assessment of the expected lives of mortgages and mortgage related fees to be spread over the lives of products. The EIR policy remains consistent with the prior year.

i. Expected Mortgage Lives

In determining the average expected lives of mortgage assets, the Group uses historical and forecast redemption and product switch data as well as management judgement. The expected lives of mortgage assets are periodically reassessed for reasonableness as any variation in the average expected lives will change the Effective Interest Rate (EIR) carrying value in the Statement of Financial Position and the timing of the recognition of interest income. A movement of 0.25 months to the average expected life of mortgages would change the EIR carrying value by +/- £0.19m. The Group recognises, due to the level of uncertainty in the economy, there is an increased risk cash flows may fluctuate due to mortgage lives behaving differently to expected.

ii. Mortgage Related Fee

During 2021, early repayment charges were included in the EIR calculation for the first time. This has had the impact of increasing the EIR asset by £0.4m. A credit adjustment has been recognised in the profit and loss to reflect accrued early repayment charges. ERC forecasts are based on historical trends and estimated customer behaviours. The methodology for calculating the movement in EIR during the year for both interest and mortgage fees otherwise remains unchanged.

c) Defined Benefit Pension Scheme Valuation

The Group operates a defined benefit pension scheme. Significant judgements have to be exercised in estimating the value of the liabilities of the scheme, and hence of its net deficit. The assumptions are outlined in Note 29.

Of these assumptions, changes in the discount rate and inflation have the most material impact on the net pension obligation. A movement in the discount rate of +0.25% decreases the pension deficit by £1.4m. A movement in the inflation rate of +0.25% increases the pension deficit by £0.7m.

d) Fair value of derivatives and financial assets

The Group employs the following techniques in determining the fair value of its derivatives and financial assets:

- Available for sale – measured at fair value using market prices or, where markets have become inactive or there is no readily available traded price, the present value of estimated future cash flows
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data. Cash flows for swap derivatives are calculated taking into consideration known characteristics of the swap (i.e. maturity date, nominal value, interest rates for fixed and variable rate legs, etc.). Cash flows are subsequently discounted using the swaps designated interest rate i.e. SONIA. Variable leg cash flows are calculated using the latest yield curve data obtained via a third-party.

1.23 Country by Country Reporting

The Capital Requirements Regulations require the Group to disclose the information below as part of 'County by Country Reporting'.

- Nature of activities and geographical location: The principal activities of the Group are set out in the Director's Report. The Group operates entirely in the UK and so no further Country by Country information has been presented.
- Average number of employees: information is disclosed in Note 6.
- Turnover is equivalent to operating income items disclosed in the Group Statement of Comprehensive Income, comprising net interest income, fees and commissions receivable and payable and other operating (charge)/income.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Statement of Comprehensive Income.
- Corporation tax paid: as disclosed in the Group Cash Flow Statement.
- Public subsidies received: none received.

02 | Interest Receivable and Similar Income

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
On loans fully secured on residential property net of expense on derivatives	**23,697**	**23,590**	23,087	22,954
On other loans				
Fully secured on land	**170**	**170**	202	202
To subsidiary undertakings	**-**	**2**	-	10
On debt securities				
Interest and other income	**-**	**-**	44	44
On treasury bills and similar income				
Interest and other income	**26**	**26**	24	24
On other liquid assets				
Interest and other income	**160**	**160**	219	219
Total	**24,053**	**23,948**	23,576	23,453

03 | Interest Payable and Similar Charges

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
On shares held by individuals	**5,917**	**5,917**	6,667	6,667
On other shares	**2**	**2**	3	3
On subordinated liabilities	**322**	**322**	338	338
On deposits and other borrowings	**422**	**422**	875	875
Total	**6,663**	**6,663**	7,883	7,883

04 | Net gain/(loss) from other Financial Instruments at Fair Value Through Profit and Loss

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Derivatives in designated fair value hedge relationships	**5,431**	**5,431**	(2,292)	(2,292)
Adjustments to hedged items in fair value hedge accounting relationships	**(4,847)**	**(4,847)**	2,173	2,173
Derivatives not in designated fair value hedge relationships	**78**	**78**	7	7
Total	**662**	**662**	(112)	(112)

05 | Administrative Expenses

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Staff costs (Note 6)	**8,161**	**8,161**	7,035	7,035
Other expenses	**4,528**	**4,504**	4,714	4,703
Total	**12,689**	**12,665**	11,749	11,738
Other expenses include				
Amounts payable to auditors (excluding VAT):	**176**	**166**	158	148
Amounts payable under operating leases	**177**	**177**	196	196

06 | Staff Numbers and Costs

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

Full Time	Number	Number	Number	Number
Principal office and administration centre	**90**	**90**	82	82
Branch offices	**29**	**29**	26	26
Total	**119**	**119**	108	108
Part Time				
Principal office and administration centre	**29**	**29**	30	30
Branch offices	**24**	**24**	30	30
Total	**53**	**53**	60	60
The aggregated costs of these persons were as follows	£000	£000	£000	£000
Wages and salaries	**6,932**	**6,932**	5,942	5,942
Social security costs	**612**	**612**	560	560
Other pension costs	**617**	**617**	533	533
Total	**8,161**	**8,161**	7,035	7,035

07 | Emoluments of and Transactions with Directors

Total Directors' emoluments amounted to £1,052k (£752k:2020). Full details are given in the Directors' Remuneration Report on pages 40 to 43.

Under the Society rules, all Directors are required to hold a savings balance of at least £1,000. Savings balances were £118k as at 31 December 2021 (£140k:2020) and are held on normal commercial terms.

At 31 December 2021 there were no (1:2020) outstanding loans granted in the ordinary course of business to Directors (£19k:2020). A register is maintained at the Head Office of the Society which shows details of all loans, transactions and arrangements with connected persons. A statement for the current financial year of the appropriate details contained in the register will be available for inspection at the Head Office for a period of 15 days up to and including the day of the Annual General Meeting.

08 | Tax on profit on ordinary activities

Current Tax	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Current tax on income for the period	**706**	**691**	256	238
Adjustments in respect of prior periods	**(1)**	**(1)**	13	11
Total current tax	**705**	**690**	269	249
Deferred tax				
Origination/(reversal) of timing differences	**764**	**764**	(456)	(456)
Adjustment in respect of previous years	**-**	**-**	(9)	(13)
Effect of changes in tax rates	**68**	**68**	(26)	(26)
Total deferred tax	**832**	**832**	(491)	(495)
Total Tax	**1,537**	**1,522**	(222)	(246)

8.1 Tax recognised in Statement of Comprehensive Income

	2021			2020		
Group	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss	**705**	**340**	**1,045**	269	154	423
Recognised in Other Comprehensive Income	**-**	**492**	**492**	-	(645)	(645)
Total tax	**705**	**832**	**1,537**	269	(491)	(222)
Society						
Recognised in profit and loss	**690**	**340**	**1,030**	249	150	399
Recognised in Other Comprehensive Income	**-**	**492**	**492**	-	(645)	(645)
Total tax	**690**	**832**	**1,522**	249	(495)	(246)

8.2 Factors affecting tax charge for the year

The tax assessed for the year differs to the standard rate of Corporation tax in the UK 19% (19%:2020). The differences are explained below:

Total tax reconciliation	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Profit on ordinary activities before tax	**5,028**	**4,945**	2,349	2,242
Corporation tax at 19% (19%:2020)	**955**	**940**	446	426
Effects of:				
Adjustment to tax charge in respect of previous periods	**(1)**	**(1)**	4	(2)
Tax rate changes	**68**	**68**	(26)	(26)
Deferred tax not recognised	**-**	**-**	-	-
Expenses not deductible	**29**	**29**	-	-
Other	**(6)**	**(6)**	(1)	1
Tax Recognised in Profit & Loss	**1,045**	**1,030**	423	399

The Group expects its effective tax rate in future years to be broadly in line with the standard rate of corporation tax in the UK.
The Corporation tax rate for the year ended 31 December 2021 was 19%. For the year ended 31 December 2021 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date. The movements in deferred taxation are disclosed in Note 25.

09 | Treasury Bills and Similar Securities

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Gilts	**10,159**	**10,159**	2,595	2,595
Movements during the year of debt are analysed as follows:				
At 1 January	**2,595**	**2,595**	2,663	2,663
Additions	**10,113**	**10,113**	-	-
Disposals and maturities	**(2,500)**	**(2,500)**	-	-
Movement in premium and accrued interest	**(46)**	**(46)**	(69)	(69)
Net (loss)/gain from changes in fair value recognised in Other Comprehensive Income	**(3)**	**(3)**	1	1
Total At 31 December	**10,159**	**10,159**	2,595	2,595

10 | Loans and Advances to Credit Institutions

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Repayable on demand	**8,512**	**8,245**	6,062	5,795
Cash pledged as collateral against derivative contracts	**1,079**	**1,079**	4,685	4,685
Other loans and advances	**1,337**	**1,337**	897	897
Total	**10,928**	**10,661**	11,644	11,377

10.1 Cash and cash equivalents

The totals for cash and cash equivalents included in the cash flow statements for each year comprise the following balances:

	Group 2021 £000	Group 2020 £000
Cash in hand and balances with the Bank of England	**140,660**	164,856
Loans and advances to credit institutions:		
Repayable on demand	**8,512**	6,062
Total	**149,172**	170,918

11 | Debt Securities

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Issued by UK banks and building societies	-	-	5,722	5,722
Total	-	-	5,722	5,722
Transferable Debt Securities Comprise				
Listed on a recognised investment exchange	-	-	5,722	5,722
Transferable securities held as financial fixed assets at fair value	-	-	5,722	5,722

11.1 Movements during the year of debt securities

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
At 1 January	**5,722**	**5,722**	11,753	11,753
Disposals and maturities	**(5,720)**	**(5,720)**	(6,009)	(6,009)
Movement in premium and accrued interest	**(2)**	**(2)**	(11)	(11)
Net loss from changes in fair value recognised in Other Comprehensive Income	-	-	(11)	(11)
At 31 December	-	-	5,722	5,722

12 | Derivative Financial Instruments Group and Society

	Contractual amount £m	Fair value assets £000	Fair value liabilities £000
At 31 December 2021			
Unmatched derivatives - interest rate swaps	**43**	**97**	**(41)**
Derivatives designated as fair value hedges – interest rate swaps	**317**	**2,340**	**(145)**
Total	**360**	**2,437**	**(186)**
At 31 December 2020			
Unmatched derivatives - interest rate swaps	14	-	(27)
Derivatives designated as fair value hedges – interest rate swaps	253	273	(3,267)
Total	267	273	(3,294)

13 | Loans & Advances to Customers

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Loans fully secured on residential property	**958,001**	**954,946**	906,697	903,325
Loans fully secured on land	**3,813**	**3,813**	4,406	4,406
Total loans	**961,814**	**958,759**	911,103	907,731

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Total loans before adjustments	**963,125**	**960,068**	907,869	904,493
Effective interest rate adjustment	**1,592**	**1,592**	1,635	1,635
Provision for impairment losses on loans and advances	**(695)**	**(693)**	(1,040)	(1,036)
Fair value adjustment for hedged risk	**(2,208)**	**(2,208)**	2,639	2,639
Total loans	**961,814**	**958,759**	911,103	907,731

The Society has pledged as collateral £154.5m (£197.7m:2020) of mortgages to the Bank of England under the Term Funding Scheme.

14 | Allowance for Impairment

Movements during 2021	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
Group							
At 1 January 2021	534	320	186	-	**720**	**320**	**1,040**
Net write-offs and recoveries	(51)	-	-	-	**(51)**	**-**	**(51)**
Balance	483	320	186	-	**669**	**320**	**989**
Impairment allowance	(150)	(53)	(91)	-	**(241)**	**(53)**	**(294)**
At 31 December 2021	**333**	**267**	**95**	**-**	**428**	**267**	**695**
Society							
At 1 January 2021	533	317	186	-	**719**	**317**	**1,036**
Net write-offs and recoveries	(51)	-	-	-	**(51)**	**-**	**(51)**
Balance	482	317	186	-	**668**	**317**	**985**
Impairment allowance	(150)	(51)	(91)	-	**(241)**	**(51)**	**(292)**
At 31 December 2021	**332**	**266**	**95**	**-**	**427**	**266**	**693**

These provisions have been deducted from the appropriate loans in the Statement of Financial Position.

Movements during 2020	Loans fully secured on residential property		Loans fully secured on land		Sub-total		
	Individual £000	Collective £000	Individual £000	Collective £000	Individual £000	Collective £000	Total £000
Group							
At 1 January 2020	132	482	98	44	**230**	**526**	**756**
Net write-offs and recoveries	(20)	-	-	(1)	**(20)**	**(1)**	**(21)**
Balance	112	482	98	43	**210**	**525**	**735**
Impairment allowance	422	(162)	88	(43)	**510**	**(205)**	**305**
At 31 December 2020	**534**	**320**	**186**	**-**	**720**	**320**	**1,040**
Society							
At 1 January 2020	132	480	98	44	**230**	**524**	**754**
Net write-offs and recoveries	(21)	-	-	(1)	**(21)**	**(1)**	**(22)**
Balance	111	480	98	43	**209**	**523**	**732**
Impairment allowance	422	(163)	88	(43)	**510**	**(206)**	**304**
At 31 December 2020	**533**	**317**	**186**	**-**	**719**	**317**	**1,036**

15 | Investment In Subsidiary Undertakings

	Society 2021 £000	Society 2020 £000
Loan to subsidiary undertaking	**912**	1,292
Movements at cost in the above loan during the year are as follows:		
At 1 January	**1,292**	1,826
Repayments	**(380)**	(534)
Total at 31 December	**912**	1,292

The Society has the following subsidiary undertakings in which it directly holds all of the issued shares at a total cost of £6. Each is a company within the meaning of the Companies Act 2006 and is incorporated in the United Kingdom.

15.1 Subsidiary Undertakings

Company name	Class of Share Held	Society's Interest	Cost
Furness Mortgage Services Limited	Ordinary	100%	£1
Furness Independent Financial Advisers Limited	Ordinary	100%	£1
Furness Authorised Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Advisers Limited	Ordinary	100%	£1
Furness Financial Services Limited	Ordinary	100%	£1
Ultimate Mortgages Limited	Ordinary	100%	£1

With the exception of Furness Mortgage Services Limited, none of the subsidiary undertakings carried on business during the year. The principal activity of Furness Mortgage Services Limited is management of secondary mortgage portfolios in the United Kingdom.
All of the Society's subsidiary companies share the same registered address as the Society.

16 | Intangible Assets Group and Society

Cost	Software £000
At 1 January 2021	4,479
Additions	622
Total at 31 December 2021	**5,101**
Depreciation	
At 1 January 2021	3,853
Charges in year	226
Total at 31 December 2021	**4,079**
Net book value	
Total at 31 December 2021	**1,022**
Total at 31 December 2020	626

17 | Tangible Fixed Assets Group and Society

Cost	Land & buildings £000	Equipment, fixtures & fittings £000	Total £000
At 1 January 2021	1,427	6,979	8,406
Additions	-	187	187
Disposals	-	(113)	(113)
Total at 31 December 2021	**1,427**	**7,053**	**8,480**
Depreciation			
At 1 January 2021	1,240	5,900	7,140
Charges in year	18	413	431
Disposals	-	(96)	(96)
Total at 31 December 2021	**1,258**	**6,217**	**7,475**
Net Book Value			
Total at 31 December 2021	**169**	**836**	**1,005**
Total at 31 December 2020	187	1,079	1,266

17.1 Net book value of land and buildings comprises:

	Society 2021 £000	Society 2020 £000
Freehold	**169**	187
Land and buildings occupied by the Group/Society for its own activities	**92**	110

18 | Other Assets

Due within one year	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Corporation tax	-	-	-	-
Others	**1,356**	**1,356**	525	525
Due after one year				
Deferred tax asset (Note 25)	**475**	**475**	1,307	1,307
Total	**1,831**	**1,831**	1,832	1,832

19 | Prepayments and Accrued Income

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Rent and rates paid in advance	**68**	**68**	57	57
Fees and subscriptions paid in advance	**171**	**171**	148	148
IT support fees paid in advance	**618**	**618**	525	525
Other	**55**	**55**	38	38
Total	**912**	**912**	768	768

20 | Shares Held

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Held by individuals	**886,619**	**886,619**	849,157	849,157
Other shares	**299**	**299**	306	306
Total	**886,918**	**886,918**	849,463	849,463

21 | Amounts Owed to Other Customers

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Amounts owed to other customers	**149,292**	**149,292**	154,902	154,902

Included in the amounts above for 2021 is £90m (£90m:2020) borrowed from the Bank of England. Note £45m was refinanced during the year into the new Term Funding Scheme with additional incentives for SMEs (TFSME) in advance of the contractual deadline. All borrowing on the original Term Funding Scheme has now been refinanced to the new scheme.

22 | Other Liabilities

Other Liabilities Comprise	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Corporation tax	**472**	**457**	38	19
Other creditors	**766**	**766**	935	936
Total	**1,238**	**1,223**	973	955

23 | Accruals and Deferred Income

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Staff related costs	**895**	**895**	369	369
Other administrative and operating costs	**581**	**570**	700	687
Others	**63**	**63**	114	114
Total	**1,539**	**1,528**	1,183	1,170

24 | Provisions For Liabilities Group and Society

	Regulatory £000	Dilapidations £000	Total £000
At 1 January 2021	57	99	**156**
Amounts (credited)/charged in the year	(9)	17	**8**
At 31 December 2021	48	116	**164**

Regulatory

This provision relates to compensation that may be payable as a result of previous business activity.

Dilapidations

The Society has obligations under certain lease contracts for dilapidation costs.

25 | Deferred Taxation Asset

The elements of deferred taxation are as follows:	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Difference between accumulated depreciation and amortisation and capital allowances	**32**	**32**	27	27
Deferred tax asset relating to FRS 102 transition	**147**	**147**	149	149
Deferred tax asset relating to payroll and pension liabilities	**296**	**296**	1,131	1,131
At 31 December	**475**	**475**	1,307	1,307

25.1 Deferred taxation movement in the year

The elements of deferred taxation are as follows:	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
At 1 January	**1,307**	**1,307**	816	812
Amount (released)/charged to Statement of Comprehensive Income*	**(832)**	**(832)**	491	495
At 31 December	**475**	**475**	1,307	1,307

The deferred tax asset as at 31 December 2021 has been calculated using the rates substantively enacted for the expected periods of utilisation of 25% (19%:2020).
*See Note 8.1 for further details

26 | Subordinated Liabilities

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Sterling subordinated loan repayable 25 June 2022	**5,000**	**5,000**	5,000	5,000
Less unamortised issuance costs	**(2)**	**(2)**	(7)	(7)
Total	**4,998**	**4,998**	4,993	4,993

Subordinated liabilities are unsecured and denominated in sterling. Interest rate payments are made at an agreed margin above the standard variable mortgage rate of the top 5 building societies ranked by asset size. The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, creditors and investing members of the Society.

27 | Financial Commitments

Future minimum lease payments under non-cancellable operating leases	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Amounts payable within 1 year	**278**	**278**	278	278
Amounts payable within 1 to 5 years	**496**	**496**	774	774
Amounts payable after 5 years	**11**	**11**	11	11
Total	**785**	**785**	1,063	1,063

28 | Financial Instruments

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

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

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

28.1 IBOR Reform

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS 102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items, or hedging instruments, affected by the current interest rate benchmarks eg LIBOR, are amended as a result of the on-going interest rate benchmark reforms. The amendments are relevant to the Society given that it hedges and applies hedge accounting to its LIBOR exposures.

The application of the amendments impacts the Society's accounting in the following ways:

- The Society has fixed rate advances in the form of retail mortgage lending to customers which it includes in a portfolio fair value hedge of LIBOR risk component of those advances. This benchmark interest rate component was separately identifiable at the time of the initial designation, and as noted above, the amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, LIBOR, may no longer be separately identifiable; and

- The Society will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship is subject to interest rate benchmark reforms.

The Society carried out the transition from LIBOR to SONIA in a two phased approach;

Phase 1
The Society applied the Phase 1 amendments to IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Society is exposed ended. This was when the Society's contracts that referenced LIBOR were amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate were determined including any fixed spread.

Phase 2
In August 2020, the IASB issued Interest Rate benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The second phase of amendments focuses on the issues arising at the time of replacement of LIBOR. The amendments are effective for annual accounting periods beginning on or after 1 January 2021.

Under the reforms LIBOR will not be sustained after the end of 2021. The Working Group on Sterling Risk-Free Reference Rates has proposed the Sterling Overnight Index Average ("SONIA") as the basis of a replacement for LIBOR.

On the 17 December 2021 the Society's impacted LIBOR referencing trades were converted to SONIA trades. A non-compounded credit adjustment spread was applied to the LIBOR leg to equalise differences between the credit risk premium inherent in LIBOR and the risk free rate of SONIA. Cash compensation was applied to neutralise any residual valuation differences.

Notional value of swaps used in hedging relationships	**Society 2021** £000	**Society 2020** £000
Notional value of LIBOR swap contracts used in hedges	-	266,500
Notional value of SONIA swap contracts used in hedges	360,000	-
Total notional value of swap contracts used in hedges held at 31 December	**360,000**	266,500
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2022	-	107,500
Notional value of LIBOR swap contracts used in hedges which mature after 2022	-	159,000

Carrying value of instruments hedged by swaps	Mortgage Assets 2021 £000	Mortgage Assets 2020 £000	Retail Liabilities 2021 £000	Retail Liabilities 2020 £000
Carrying value of instruments hedged by LIBOR swap contracts	-	200,405	-	15,460
Carrying value of instruments hedged by SONIA swap contracts	295,657	-	10,211	-
Of which:				
Carrying value of instruments hedged by LIBOR swap contracts which mature before the end of 2022	-	67,470	-	-
Carrying value of instruments hedged by LIBOR swap contracts which mature after 2022	-	132,935	-	15,460

28.2 Derivatives

Derivatives used by the Group are exclusively interest rate swaps used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products. The Board of Directors has authorised the use of derivatives in accordance with the Building Societies Act 1986. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. The Accounting Policies for hedging contracts are described in the accounting policies in Note 1. 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 recognition and measurement of financial instruments is set out in the Accounting Policies (Note 1). The table below shows the assets and liabilities of the Group assigned to the categories by which they are recognised and measured. The differences between Group and Society are immaterial.

At 31 December 2021	Measured at amortised cost		Measured at fair value			Total
FINANCIAL ASSETS	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	140,660	-	-	-	**140,660**
Treasury bills and gilts	-	-	10,159	-	-	**10,159**
Loans and advances to credit institutions	10,928	-	-	-	-	**10,928**
Debt securities	-	-	-	-	-	**-**
Derivative financial instruments	-	-	-	2,340	97	**2,437**
Loans and advances to customers	961,814	-	-	-	-	**961,814**
Total financial assets	972,742	140,660	10,159	2,340	97	**1,125,998**
Non-financial assets	-	4,770	-	-	-	**4,770**
Total assets	**972,742**	**145,430**	**10,159**	**2,340**	**97**	**1,130,768**
FINANCIAL LIABILITIES						
Shares	-	886,918	-	-	-	**886,918**
Amounts owed to credit institutions	-	7,510	-	-	-	**7,510**
Amounts owed to other customers	-	149,292	-	-	-	**149,292**
Derivative financial instruments	-	-	-	145	41	**186**
Subordinated Liabilities	-	4,998	-	-	-	**4,998**
Total financial liabilities	-	1,048,718	-	145	41	**1,048,904**
Non-financial liabilities	-	3,817	-	-	-	**3,817**
Total liabilities	**-**	**1,052,535**	**-**	**145**	**41**	**1,052,721**

At 31 December 2020	Measured at amortised cost		Measured at fair value			Total
FINANCIAL ASSETS	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available for sale £000	Derivatives designated as FVTPL hedges £000	Unmatched derivative £000	£000
Cash in hand	-	164,856	-	-	-	**164,856**
Treasury bills and gilts	-	-	2,595	-	-	**2,595**
Loans and advances to credit institutions	11,644	-	-	-	-	**11,644**
Debt securities	-	-	5,722	-	-	**5,722**
Derivative financial instruments	-	-	-	273	-	**273**
Loans and advances to customers	911,103	-	-	-	-	**911,103**
Total financial assets	922,747	164,856	8,317	273	-	**1,096,193**
Non-financial assets	-	4,492	-	-	-	**4,492**
Total assets	**922,747**	**169,348**	**8,317**	**273**	**-**	**1,100,685**
FINANCIAL LIABILITIES						
Shares	-	849,463	-	-	-	**849,463**
Amounts owed to credit institutions	-	9,026	-	-	-	**9,026**
Amounts owed to other customers	-	154,902	-	-	-	**154,902**
Derivative financial instruments	-	-	-	3,267	27	**3,294**
Subordinated Liabilities	-	4,993	-	-	-	**4,993**
Total financial liabilities	-	1,018,384	-	3,267	27	**1,021,678**
Non-financial liabilities	-	7,996	-	-	-	**7,996**
Total liabilities	**-**	**1,026,380**	**-**	**3,267**	**27**	**1,029,674**

28.3 Valuation of financial instruments carried at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy as outlined below. Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Group's Level 1 portfolio consists principally of debt securities and treasury bills for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. We have evaluated these using estimated credit losses, interest rates and discount rates (eg yield curves). The Group's Level 2 portfolio consists of interest rate swaps for which traded prices are readily available.

Level 3

These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. We have no assets or liabilities of this type.

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:

At 31 December 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities	-	-	-	-
Treasury bills & similar	10,159	-	-	**10,159**
Fair value through profit and loss				
Derivative financial instrument assets	-	2,437	-	**2,437**
Total	**10,159**	**2,437**	-	**12,596**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	186	-	186
Total	-	**186**	-	**186**
At 31 December 2020				
Financial assets				
Available-for-sale				
Debt securities	5,722	-	-	**5,722**
Treasury bills & similar	2,595	-	-	**2,595**
Fair value through profit and loss				
Derivative financial instrument assets	-	273	-	**273**
Total	**8,317**	**273**	-	**8,590**
Financial liabilities				
Fair value through profit and loss				
Derivative financial instrument liabilities	-	3,294	-	**3,294**
Total	-	3,294	-	**3,294**

28.4 Financial assets pledged as collateral

The total financial assets recognised in the Statement of Financial Position that had been pledged as collateral for liabilities at 31 December 2021 and 2020 is shown in the following table.

	Group 2021 £000	Group 2020 £000
Loans and advances to credit institutions	**1,079**	4,685
Loans and advances to customers	**154,505**	197,666
Total	**155,584**	202,351

Financial assets are pledged as collateral to the Bank of England to support both Term Funding Scheme borrowings and to support contingent liquidity drawdowns if required. Mortgage loans of £154.5m were pledged to the Bank of England as at 31 December 2021. In addition the Society places collateral with a central clearing provider to support initial margin and mark to market movements under derivative contracts used to manage interest rate risk.

28.5 Credit risk

'Credit risk' is the risk that a borrower or counterparty of the Group will cause a financial loss to the Group by failing to discharge an obligation.

All loan applications are assessed with reference to the Group's Lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. The Board is responsible for approving treasury counterparties.

The Group enters into credit support agreements, which protect against counterparty default in respect to hedging instruments by means of collateral transactions. Collateral balances are included within 'liquid assets' or 'amounts owed to credit institutions' as appropriate and interest receivable or payable reflected in the Statement of Comprehensive Income within 'net interest receivable'.

The Group's maximum credit risk exposure is detailed in the table below:

	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Cash in hand and balances with Bank of England	**140,660**	**140,660**	164,856	164,856
Treasury bills and gilts	**10,159**	**10,159**	2,595	2,595
Loans and advances to credit institutions	**10,928**	**10,661**	11,644	11,377
Debt securities	**-**	**-**	5,722	5,722
Derivative financial instruments	**2,437**	**2,437**	273	273
Loans and advances to customers	**961,814**	**958,759**	911,103	907,731
Loans to Subsidiaries	**-**	**912**	-	1,292
Total Statement of Financial Position exposure	**1,125,998**	**1,123,588**	1,096,193	1,093,846
Off balance sheet exposure – mortgage commitments	**100,253**	**100,253**	75,299	75,299
Total	**1,226,251**	**1,223,841**	1,171,492	1,169,145

28.6 Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the provision for impairment/loss held by the Group against those assets.

	2021		2020	
	Loans fully secured on residential property £000	Loans fully secured on land £000	Loans fully secured on residential property £000	Loans fully secured on land £000
Neither past due nor impaired	**938,280**	**2,151**	860,762	2,181
Past due but not impaired				
0-60 days	**6,161**	**19**	6,699	89
60-90 days	**596**	**-**	857	249
90-180 days	**902**	**-**	1,344	54
180 days+	**420**	**-**	656	-
Impaired				
Not past due	**6,704**	**1,738**	25,613	2,019
0-60 days	**4,579**	**-**	4,843	-
60-90 days	**181**	**-**	1,738	-
90-180 days	**305**	**-**	394	-
180 days+	**978**	**-**	371	-
Possession	**111**	**-**	-	-
Total	**959,217**	**3,908**	903,277	4,592
Allowance for impairment				
Individual	**333**	**95**	534	186
Collective	**267**	**-**	320	-
Total allowance for impairment	**600**	**95**	854	186

The status 'past due but not impaired' includes any asset where a payment due is received late or missed but no individual impairment has been made against that asset. The amount included is the entire loan amount and not just the overdue amount.

28.7 Assets obtained by taking possession of collateral

There was 1 (no:2020) financial asset obtained during the year by taking possession of collateral held as security against loans and advances and held at year-end. This represents a total mortgage balance of £111k.

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

28.8 Collateral held and other credit enhancements

Average loan to value of loans and advances to customers:

Group 2021	Society 2021	Group 2020	Society 2020	Principal type of collateral held
42.7%	**42.8%**	42.9%	43.0%	Property

The Group and Society holds security against its mortgage loans and advances in the form of property collateral in order to mitigate credit risk.

The table opposite analyses the average loan to value of underlying collateral for our loans and advances to customers, based on the indexed valuation. The Society uses the HM Land Registry data to revalue property collateral held against individual mortage loans in order to calculate indexed valuations.

LTV ratio	Group 2021 £000	Society 2021 £000	Group 2020 £000	Society 2020 £000
Less than 50%	**382,083**	**379,213**	356,869	353,983
50-70%	**348,366**	**348,179**	324,888	324,398
71-90%	**220,667**	**220,667**	200,236	200,236
91-100%	**11,014**	**11,014**	25,108	25,108
More than 100%	**995**	**995**	768	768
Total	**963,125**	**960,068**	907,869	904,493

The tables opposite further stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the indexed valuation.

28.9 Forbearance

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

The table below analyses residential mortgage borrowers with renegotiated terms at the year end date:

	Group 2021 Number	Group 2020 Number
Arrangement	**10**	19
Interest Only	**3**	4
Extension of Term	**11**	6
Others	**6**	15
Total	**30**	**44**

The cases above represent total mortgage balances of £2.2m (£3.7m:2020).

Impairment provisions of £23k (£81k:2020) are held in respect of these mortgages.

28.10 Liquidity risk

Liquidity risk is the risk that the Group 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 Group'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:

1. meet day-to-day business needs;
2. meet any unexpected cash needs;
3. maintain public confidence; and
4. ensure maturity mismatches are provided for.

Monitoring of liquidity, in line with the Group's prudent policy framework, is performed daily. Compliance with these policies is reported regularly to the Board Risk Committee. The Group's Liquidity policy is designed to ensure the Group has sufficient liquid resources to withstand a range of stressed scenarios. A series of liquidity stress tests has been developed as part of the Individual Liquidity Adequacy Assessment (ILAA) process. They include scenarios that fulfil the specific requirements of the Prudential Regulation Authority (PRA) and scenarios identified by the Group which are specific to its business model. The stress tests are performed monthly to confirm that liquidity policy remains appropriate.

28.11 Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Group's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

AT 31 DECEMBER 2021

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	140,660	-	-	-	-	**140,660**
Treasury bills and gilts	-	-	10,159	-	-	**10,159**
Loans and advances to credit institutions	8,512	-	-	1,079	1,337	**10,928**
Debt securities	-	-	-	-	-	**-**
Derivative financial instruments	-	18	163	2,256	-	**2,437**
Loans and advances to customers	-	684	4,514	77,086	879,530	**961,814**
Total financial assets	**149,172**	**702**	**14,836**	**80,421**	**880,867**	**1,125,998**
Financial liabilities						
Shares	605,286	43,311	72,149	166,172	-	**886,918**
Amounts owed to credit institutions	-	-	7,510	-	-	**7,510**
Amounts owed to other customers	26,076	3,817	26,705	92,694	-	**149,292**
Subordinated debt	-	-	4,998	-	-	**4,998**
Derivative financial instruments	-	44	44	98	-	**186**
Off balance sheet exposure	100,253	-	-	-	-	**100,253**
Total financial liabilities	**731,615**	**47,172**	**111,406**	**258,964**	**-**	**1,149,157**

AT 31 DECEMBER 2020

Financial assets	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Cash in hand & balances with Bank of England	164,856	-	-	-	-	**164,856**
Treasury bills and gilts	-	-	2,595	-	-	**2,595**
Loans and advances to credit institutions	6,062	-	-	4,685	897	**11,644**
Debt securities	-	5,722	-	-	-	**5,722**
Derivative financial instruments	-	-	-	273	-	**273**
Loans and advances to customers	-	1,786	8,163	69,258	831,896	**911,103**
Total financial assets	**170,918**	**7,508**	**10,758**	**74,216**	**832,793**	**1,096,193**
Financial liabilities						
Shares	725,025	13,566	38,620	72,252	-	**849,463**
Amounts owed to credit institutions	-	4,022	5,004	-	-	**9,026**
Amounts owed to other customers	23,686	11,345	27,400	92,471	-	**154,902**
Subordinated debt	-	-	-	4,993	-	**4,993**
Derivative financial instruments	-	45	487	2,762	-	**3,294**
Off balance sheet exposure	75,299	-	-	-	-	**75,299**
Total financial liabilities	**824,010**	**28,978**	**71,511**	**172,478**	**-**	**1,096,977**

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

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

GROUP AT 31 DECEMBER 2021

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	605,286	43,346	72,442	169,412	-	**890,486**
Amounts owed to credit institutions	-	-	7,510	-	-	**7,510**
Amounts owed to other customers	26,076	3,819	26,762	93,467	-	**150,124**
Subordinated debt	-	-	5,159	-	-	**5,159**
Derivative financial instruments	-	44	44	98	-	**186**
Subtotal	631,362	47,209	111,917	262,977	-	**1,053,465**
Other liabilities	-	-	3,138	-	876	**4,014**
Total financial liabilities	**631,362**	**47,209**	**115,055**	**262,977**	**876**	**1,057,479**

GROUP AT 31 DECEMBER 2020

Financial liabilities	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but no more than five years £000	More than five years £000	Total £000
Shares	725,025	13,579	38,801	73,878	-	**851,283**
Amounts owed to credit institutions	-	4,022	5,004	-	-	**9,026**
Amounts owed to other customers	23,686	11,353	27,502	93,827	-	**156,368**
Subordinated debt	-	-	-	5,492	-	**5,492**
Derivative financial instruments	-	45	487	2,762	-	**3,294**
Subtotal	748,711	28,999	71,794	175,959	-	**1,025,463**
Other liabilities	-	-	2,509	-	5,684	**8,193**
Total financial liabilities	**748,711**	**28,999**	**74,303**	**175,959**	**5,684**	**1,033,656**

28.12 Market risk

Market risk is the risk of changes to the Group's financial condition caused by market interest rates. The Group is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and longterm interest rates and interest rates for different balance sheet elements (basis risk).

The management of interest rate risk is based on a full Statement of Financial Position gap analysis. In addition management review interest rate basis risk. Both sets of results are measured against the risk appetite for market risk these are in turn reviewed monthly and reported to the Board Risk Committee.

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

The following is an analysis of the sensitivity of the Group's equity reserves to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Market Risk Group 31 December 2021	200bps parallel increase £000	200bps parallel decrease £000
Sensitivity to profit and reserves	**(1,863)**	1,995
31 December 2020		
Sensitivity to profit and reserves	**(1,458)**	1,584

28.13 Capital

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 Society's actual and expected capital position is reviewed against stated risk appetite which aims to maintain capital at a specific level above its Internal Capital Guidance. The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which also includes monitoring of:

Lending and Business Decisions

The Society does not use an application scorecard and all cases are individually underwritten using credit reference data and a number of sources of evidence regarding the status of the borrower. A detailed Lending policy sets out the Society's lending criteria for different types of lending supported by ongoing monitoring within the business to ensure the loans are affordable and all lending is responsible. The Credit Risk Committee meets regularly to monitor and control the risks associated with the mortgage lending portfolio and to ensure activity remains within policy and approved limits.

Concentration risk

The Society is exposed to concentration risk principally because its activities are highly concentrated in residential lending and/or associated products and services funded predominantly by retail deposits. Concentration risk is concerned with the risk that in extreme scenarios, the lack of diversification may mean the losses resulting from such concentrations may be sufficient to impact the solvency of the Group. The following types of concentration risk are monitored to ensure that lending is not more than is appropriate for the Group in relation to its position/size; Geographic, Funding, Large Exposures and Product Type.

Counterparty risk

The Society is exposed to the risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in losses. Counterparty risk principally arises from the Society investing in liquid assets as part of its Treasury operations. The Society controls the risk arising from liquid assets via a Board approved policy which restricts investments principally to cash held with the Bank of England, UK Government issued debt instruments and liquid regulatory compliant AAA rated debt securities. The Society's liquid asset investments are monitored by the Society's Assets and Liabilities Committee (ALCO) to ensure activity remains within policy and approved limits.

Pricing risk

Product pricing models are utilised for both new mortgage product launches and to assess ongoing pricing changes to the existing product portfolio in order to manage acceptable levels of net interest income margin and returns to support planned profitability and capital levels. All pricing decisions are reviewed and approved through the Product Pricing Committee.

29 | Society Pensions

The Society previously operated a Defined Benefit Pension Scheme, now closed to new entrants and further accrual, on which it recognises gains and losses in each period in the Statement of Comprehensive Income. The Defined Benefit Pension Accounting policy is set out in Note 1.19.

The Society's cash contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Pension contributions in 2021 were £1.54m which were based on the 2020 triennial valuation.

The Society's Defined Benefit Pension Scheme was closed to new entrants in September 2000 and to further accrual in January 2017. Eligible employees can join a Group Personal Pension Scheme under which the Society assists with contributions. In 2021, the Society contributed £429k to this scheme (£339k:2020).

The Society has implemented Section 28 of FRS 102 'Employee Benefits' which covers the accounting and disclosure requirements for employee pensions. In accordance with Section 28 of FRS 102 the defined benefit pension liability has been shown gross of related deferred tax in the balance sheet. The FRS 102 scheme deficit at 31 December 2021 is £0.876m (£5.684m:2020) before related deferred tax of £0.219m (£1.080m:2020) and is shown in the Statement of Financial Position.

The fair value of the Defined Benefit Pension Scheme assets was £32.441m at 31 December 2021 (£29.679m:2020). The Scheme's assets include no assets from the Society's own financial instruments and do not include any property occupied by, or other assets used by the Society.

The key assumptions used in this valuation are:

Discount rate 1.8%
Inflation assumption-CPI 2.95%

Disclosures under FRS102 may be volatile from year-to-year. This is because the liabilities are measured by reference to corporate bond yields whereas the majority of the Society's assets are invested across a variety of asset classes that may not move in the same direction.

The post retirement mortality assumptions are based on the mortality table known as S3PXA with reference to members' years of birth. Allowances have been made for improvements in mortality in the recent past and currently expected in the future.

The assumptions are equivalent to expecting a 62-year old to live for a number of years as follows:

- Current pensioner aged 62: 24.5 years male, 27.0 years female.
- Future retiree upon reaching 62: 25.8 years male, 28.5 years female.

29.1 Pension breakdown

Net pension (liability)	2021 £000	2020 £000
Defined benefit obligation	**(33,317)**	(35,363)
Plan assets	**32,441**	29,679
Deficit in the Scheme	**(876)**	(5,684)
Movement in deficit during the year		
Deficit in the Scheme at beginning of year	**(5,684)**	(3,575)
Interest cost	**(65)**	(65)
Actuarial gain/(loss)	**3,548**	(3,014)
Employer contributions paid (gross of charges)	**1,325**	970
Deficit in the Scheme at end of year	**(876)**	(5,684)

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are shown in the following tables:

Changes in the fair value of scheme assets:	2021 £000	2020 £000
Opening fair value of Scheme assets	**29,679**	27,103
Interest on assets	**388**	569
Gains on asset return	**2,053**	1,975
Contributions by employer (gross)	**1,325**	970
Benefits paid	**(1,004)**	(938)
Closing fair value of Scheme assets	**32,441**	29,679
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**35,363**	30,678
Interest cost	**453**	634
(Gain)/loss on changes in assumptions/ from experience	**(1,495)**	4,989
Benefits paid	**(1,004)**	(938)
Closing defined benefit obligation	**33,317**	35,363

The pension costs for the Defined Benefit Pension Scheme in 2021 were as follows:

Analysis of other pension costs charged in arriving at operating profit:	2021 £000	2020 £000
Interest on Pension Scheme liabilities	**(65)**	(65)
Net charge to operating profit	**(65)**	(65)

Analysis of amount credited/(charged) through other comprehensive Income:		
Return on assets	**2,053**	1,975
Changes in assumptions	**1,495**	(4,989)
Net credit/(charge) through Other Comprehensive Income	**3,548**	(3,014)

The fair value of the plan assets were as follows:

	2021 Fair Value £000	2020 Fair Value £000
Equities	-	13,687
Bonds	**22,119**	11,154
Other*	**10,322**	4,837
Total	**32,441**	29,678

*Includes £6,100 in diversified growth fund that allocates funds across a broad range of asset classes including equities.

Principal actuarial assumptions (expressed as weighted averages) at the year-end:

	2021	2020
Discount rate	**1.8%**	1.3%
Inflation - RPI	**3.5%**	3.0%
Inflation - CPI	**3.0%**	2.5%

The return on the scheme's invested assets over the year was 6.9%, equivalent to £2.053m in monetary terms.

The total actuarial gain recognised in Other Comprehensive Income in 2021 was £3.548m (£3.014m loss:2020).

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension ('GMP') benefit within the Lloyds pension scheme, the Society included an allowance for the impact of GMP equalisation within its 2018 accounting figures, where an uplift of 0.3% was applied to the FRS 102 liabilities. The liabilities as at 31 December 2021 are based on these figures and therefore allow for this adjustment. However, this remains an estimated figure with no further adjustment to this estimate to date. Once detailed calculations have been undertaken by the Scheme Trustee, the difference between this estimate and the actual cost of equalisation will be treated as an actuarial gain/loss in the Other Comprehensive Income.

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The Society has estimated the impact of this ruling to be less than 0.1% of liabilities and has therefore excluded the impact from its 2021 accounting figures.

30 | Related Party Transactions

The Group has taken exemption as provided in section 33.1A of FRS 102 and does not disclose transactions with members of the same Group that are wholly owned.

The Group would disclose transactions with related parties which are not wholly owned with the same Group; however, during the year under consideration, there have been no such related party transaction which needs to be disclosed.

As at 31 December 2021 the Society had a loan outstanding to its subsidiary, Furness Mortgage Services Limited, of £0.912m (£1.292m:2020).

The Society was owed £0.002m by its subsidiary Furness Financial Advisers Limited (£0.001m:2020).

See Note 7 for disclosure of Directors' emoluments and details of transactions with Directors.

Annual Business Statement

For the year ended 31 December 2021

Statutory Percentages

Statutory Percentages	At 31.12.2021	At 31.12.2020	Statutory limit
Proportion of business assets not in the form of loans fully secured on residential property (the 'lending limit')	**0.94%**	0.82%	25%
Proportion of shares and borrowings not in the form of shares held by individuals (the 'funding limit')	**15.05%**	16.21%	50%

The above percentages have been prepared from the Group's Annual Accounts.

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.

Business assets are the total assets of the Group as shown in the Statement of Financial Position plus impairment allowance on loans and advances to customers, less fixed assets and liquid assets.

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

Other Percentages

Summary of Key Financial Ratios	2021 (%)	2020 (%)
Gross capital as a percentage of shares and borrowings	**7.96**	7.50
Free capital as a percentage of shares and borrowings	**7.79**	7.34
Liquid assets as a percentage of shares and borrowings	**15.50**	18.24
Profit for the year as a percentage of mean total assets	**0.36**	0.18
Management expenses as a percentage of mean total assets	**1.2**	1.18

The above percentages have been prepared from the Group's Annual Accounts.

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

'Gross capital' represents aggregated reserves and subordinated liabilities as shown in the Group Statement of Financial Position.

'Free capital' is gross capital plus collective impairment on loans and advances less tangible and intangible fixed assets in the Group Statement of Financial Position.

'Mean total assets' represent the average of total assets at the beginning and end of the financial year for the Group.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and treasury bills.

'Management expenses' are the aggregate of administrative expenses and depreciation and amortisation taken from the Group Statement of Comprehensive Income.

Directors as at 31 December 2021

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mr G M Berville	65	31/10/2018	Company Director	Chair Keycare Insurance Chair Yorkshire Cancer Research Chair of Keycare Assistance Ltd (Eire)
Ms K L Rebecchi	55	05/01/2016	Company Director	Redmayne-Bentley Stockbrokers LLP Cynergy Bank Limited
Mr N J Gower	62	20/05/2014	Company Director	Manchester University NHS Foundation Trust
Mr P A McLelland	55	26/10/2016	Company Director	Calisen Group (Holdings 2) & Subsidiaries Full details available on request
Mr A P Haywood	58	25/04/2018	Chief Information Officer	Yorkshire Water
Mr P D Rogerson	57	29/10/2019	Company Director	Trustee of the Newcastle West End Food Bank charity Redcar and Cleveland Voluntary Development Agency Housing Community Interest Company Whitworth West Management Company Limited
Mr C M Harrison	60	06/04/2017	Chief Executive	Furness Mortgage Services Limited Furness Financial Advisers Limited
Mr C O'Donnell	48	01/07/2019	Finance Director	Furness Mortgage Services Limited Furness Financial Advisers Limited

Documents may be served on the above named Directors at the following address: Furness Building Society, Emlyn Hughes House, Abbey Road, Barrow-in-Furness, Barrow-in-Furness, Cumbria LA14 5PQ

Other Officers

Name	Age	Date of Appointment	Business Occupation	Other Directorships
Mrs E O'Dwyer	47	11/01/2021	Chief Risk Officer	
Mrs P A Mawson	51	05/07/2015	Chief Compliance Officer & Group Secretary	Furness Mortgage Services Limited Furness Financial Advisers Limited

Particulars of Directors' Remuneration and Expenses

Details of Directors' remuneration and expenses can be found in the Directors' Remuneration Report on pages 40 to 43.

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