2021

Annual Report and Accounts 2021

Year ended 31st March 2021

esbs

as individual as you

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Member of the Building Societies Association

Earl Shilton Building Society (esbs) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority – registration number 206078

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DIRECTORS

Martin J RICE LLB LLM (Distinction), Chairman
Paul E BEARDSMORE FCIB, Vice-Chairman (Retired 30th November 2020)
Ian M DALE ACA, Senior Independent Director
Darren J HICKMAN FCCA ACIB (Appointed 24th November 2020)
Sheryl A LAWRENCE ACA MBA LLM BSc (Resigned 6th May 2020)
Laura J MACKIE BA BSC ACIB
Alexander (Alex) C ROBINSON MBA BEng (Appointed 19th November 2020)
John STABLES BA BFP FCA
Paul TILLEY JP ACIB CeRGI CeMAP
Stephen T WIGFULL CA MMath MSc

CHIEF EXECUTIVE & SECRETARY

Paul TILLEY JP ACIB CeRGI CeMAP

FINANCE DIRECTOR

Stephen T WIGFULL CA MMath MSc

INTERNAL AUDITORS

RSM Risk Assurance Services LLP

EXTERNAL AUDITOR

BDO LLP
Chartered Accountants and Statutory Auditor

CHAIRMAN'S STATEMENT
for the year ended 31st March 2021

Overview of the year

Despite the disruption the Coronavirus pandemic has caused to our lives and communities, esbs has delivered strong mortgage asset growth and achieved a healthy profit for the last business year, adding further to the capital reserves of your Society.

These are the headlines with more detailed commentary appearing in the Chief Executives Report in the next section:

- Pre-tax profit marginally up at over £420,000;
- Total asset and mortgage asset growth of over 4%;
- Management Expenses as a percentage of average total assets decreasing year-on-year;
- Continued good feedback from members.

The start of our last business year coincided with the Covid-19 pandemic taking hold and the initial 'Lockdown' regulations being imposed by the Government, a public health intervention which the UK had never used before.

Building Societies were deemed to be key businesses that could remain open but our working practices had to be adapted, to safeguard the health and welfare of our members and the Society's colleagues.

Public health restrictions have impacted Gross Domestic Product (GDP, a measure of the monetary value of all finished goods and services produced within a country during a specific period; or put another way, the size of an economy and its growth rate) in the UK and the availability of the furlough scheme was an unprecedented measure reflecting economic uncertainty resulting from the Lockdown and closure of a number of areas of the economy. The Bank of England reduced its Base Rate to a historic low of 0.1% to support the economy last year and, at the time of writing it remains at this percentage.

The success of the UK's vaccine programme is accelerating public safety against the threat of the virus, but the economic uncertainty produced by the unprecedented public health restrictions of the past year might be with us for some time.

Critical workers throughout the UK have worked tirelessly to keep the UK economy running. The NHS are at the forefront but many other unsung heroes have played their part. On behalf of the Board, I would like to express my sincere gratitude for their courage and determination in this uncertain time, and to particularly acknowledge that our business results show the support of our members and the commitment of the Society's colleagues to work through a challenging year.

I am sad to report that Mr John Gilbert, former Chief Executive and former Director of esbs, who retired from the Society in the 1990's, passed away during the year. At the date of his retirement, his family had been associated with the running of the Society for over 100 years.

The impact of Covid-19

The Society responded rapidly to the detailed regulations issued by the Government, requiring businesses that were allowed to remain open to make themselves 'Covid secure'. Even before the first national Lockdown was announced, arrangements had been created at our Head Office in Earl Shilton and the local Barwell Branch, permitting our colleagues to continue to serve our members and work safely together.

As the Lockdown commenced, we allowed our colleagues to rotate working from home, creating safe distancing within our offices. None of our colleagues were furloughed over the course of the business year and they were supported to help with the extra demands that resulted from new ways of working.

The Society's Board also agreed that Non-Executive Directors should not attend our Head Office while the pandemic was a risk to safety. For the past year the Board has exercised its oversight function remotely, using Zoom (live video based) technology, to conduct our meetings and operate our corporate governance responsibilities.

Furthermore, our AGM in July last year was conducted remotely, with a recording of proceedings published on our website for members to listen to.

Information technology made many of these new arrangements possible and the Board is grateful that they were implemented quickly and seamlessly.

As members will be aware, the impact of Covid-19 has been more widespread than had been originally anticipated.

Beyond the tragedy of bereavement, many people have endured a real impact to their financial security, either because of being furloughed or due to redundancy.

Early on in the pandemic, the Government asked financial services firms to support consumers by providing payment deferral schemes to ease the pressure on household budgets and these arrangements were renewed during the year.

The Society has actively supported its borrowing members who asked for this forbearance, which primarily meant a suspension of their mortgage payments for a period of time; this was in addition to the help we could already make available for borrowing members with payment difficulties. The proportion of members asking for assistance was in line with the general experience of other building societies in our peer group and I am pleased to report that the majority of the deferments have come to an end with normal payments resuming. We will always try to find a solution for a borrowing member who is struggling, aiming to get them back on track. I am pleased to report that the vast majority of our borrowing members who utilised payment deferral schemes with the Society have now resumed full payment.

The early months of the first Lockdown also meant the housing market was closed for business. At the time it was unclear how long this might last. In response, the Board considered an emergency operating budget for the Society, projecting restricted growth and business activity, to test our business model if mortgage lending and profitability were constrained for any length of time. It was heartening to see that even assuming exceptionally low levels of business activity for a sustained period, the Society remained financially resilient. In practice, the pick-up in mortgage business after the summer of 2020 was considerable and has produced strong results at the end of our business year.

The economy and interest rates

Members will be aware that the Government implemented emergency measures to protect the economy, with two cuts in the central bank Base Rate during March 2020, to a historic low of 0.1%. The Bank of England has maintained that rate to support the economy and the extraordinary levels of public borrowing incurred during the pandemic.

The interest rates the Society can offer to its saving members is influenced by the Bank of England through its Base Rate, due to regulations that require a large proportion of our liquidity to be placed on deposit with the Bank, as well as the onward effect that the Base Rate has on other interest rates in the market generally.

The returns on our liquidity deposits are actually much less than we pay our saving members and this has an effect on our Net Interest Margin, a critical measure of the Society's financial wellbeing. Put simply, this measures the difference between the interest we earn from the Society's liquid assets and mortgage lending and the interest we pay to our saving members.

The interest rates charged on mortgage lending have also dropped across the market, reflecting increased competition among lenders to attract borrowers. The Society monitors the movement of mortgage rates in the market, as we need to position ourselves to be able to compete with other banks and building societies by charging competitive rates of interest on the type of mortgage lending we offer. The Society must make a profit for financial stability but we only aim to optimise, and not maximize our profit levels, so that we remain financially stable.

Although there were reductions in our savings rates during the year, it has always been part of the mission of the Society to provide products that offer longer term value and we will continue to do so as far as we can, to the extent that the Base Rate and market rates allow.

There has been coverage in the media that the Bank of England might introduce negative interest rates at a future date. The Bank of England has asked all banks and building societies to confirm how they would be able to manage if negative rates were introduced. The Society is undertaking contingency planning to understand how it could operate in these circumstances, although it remains uncertain whether this will actually happen. Although some other countries have used negative interest rates as a tool of monetary policy, to varying degrees of success, the Bank of England has particularly emphasized that they have not yet made a policy decision to reduce rates below zero or set out the economic circumstances when they might expect to do so.

The initial Lockdown in the economy produced a sharp decline in GDP in the UK in the first half of last year. As the UK economy was allowed to reopen in the summer of 2020, GDP rebounded sharply but the tiers of public health restrictions that followed in the autumn and the national Lockdown after Christmas have acted to slow growth again. At the time of writing, the Governor of the Bank of England has indicated he expects a further strong rebound toward the end of this year and as the UK's vaccine programme has progressed so quickly, the prospects of greater societal freedoms are on the horizon. Even so, the level of Government borrowing is significant by historic standards and as the Chancellor's March budget showed, economic uncertainty and the likelihood of high unemployment may remain with us for some time to come.

It is difficult to anticipate what level of consumer confidence will exist in the housing market in the coming year. The stamp duty holiday introduced by the Chancellor of the Exchequer last year certainly stimulated the housing market and this has recently been extended. Additionally, a new Government scheme to support first time buyers with 95% loan to value lending will undoubtedly add further stimulus. The extent to which unemployment might act as a brake in the later months of 2021 remains to be seen although the Society remains optimistic there will be continuing opportunities to maintain our lending programme without materially altering our cautious personal underwriting approach.

Team Changes

We have added further expertise to the Board with the appointment of Mr Alex Robinson and Mr Darren Hickman. Mr Robinson was the former Group Commercial Director of Skipton Building Society and brings a wealth of experience from a much larger society. Mr Hickman was Director of Insurance at Santander PLC but also held several executive positions with the former Alliance & Leicester Building Society having commenced with the former Leicester Building Society in the early 1980's. We must always look to future demands on the Board's oversight responsibilities and keep under review the number and quality of the appointments we make that will support the Society into the future. I am delighted to welcome them both to the Board and I look forward to their contributions.

In November last year we said goodbye to Mr Paul Beardsmore, our Vice Chairman. Mr Beardsmore joined the Society in 2013 after a successful Executive career with, among others, the Market Harborough Building Society. He was also the Chair of the Board's Remuneration Sub-Committee and a member of the Audit Sub-Committee. He served the Society loyally during his tenure and I record my personal thanks for his wise counsel and considered demeanour, which added to the professionalism of the Board as a working team.

The Board has not chosen to appoint a successor Vice-Chairman, being reliant instead upon the experience of Mr Ian Dale, our Senior Independent Director, to act in a similar capacity to the role that an office of Vice-Chairman normally fulfils.

During the year we had the benefit of counsel from Ms Sheryl Lawrence toward aspects of our risk management framework that could be strengthened. I record my thanks for Ms Lawrence's input during the time she was with us.

Concluding thoughts

The foundation of the building society model rests on the principle of 'mutuality' and guides how your Society operates. Because we have no shareholders, our business should be viewed as inter-generational, always serving the interests of you, our members, as our core purpose.

Although the pandemic has been a test of many businesses, esbs has demonstrated that it remains resilient and financially stable. Indeed, our strong results for the year evidence that a regional, membership-based building society, established in 1857, is still entirely relevant to the provision of financial services in the twenty-first century.

In closing, I would like to thank our colleagues for their hard work, both personally and in their teams; and likewise, my fellow Directors, who remain unstinting in their support of the Society. In a year when we have all faced such daunting challenges, I am honoured to work with people who have been so committed to the continuation of esbs and serving the interests of our members without interruption.

M J RICE Chairman

20th May 2021

Introduction

Little did I think that I would be writing a second annual report whilst the UK, and most of the world, is still in the midst of the Covid-19 pandemic. I cannot recollect such a disruptive period as the last twelve months but there is light at the end of the tunnel, particularly in the UK.

It is testament to colleagues' tenacity, commitment and perseverance, and our contingency planning, that the Society has very much remained "open for business", as permitted by the government's guidelines, but with a few changes made along the way. Many colleagues have been, and continue to be, successfully and securely working from home to continue to offer you the service you require from us, with others working from Covid-19 secure branches and offices, albeit with a number of modifications for everyone's safety. As a member of the Society your flexibility and understanding has been most welcome during these challenging times. Protecting the physical and mental health of colleagues and members remains a key objective for the Society as a caring and considerate employer and business. Colleague absence rates year-on-year have remained stable and very low. The last twelve months have really been about us all pulling together as a team so I'd like to record my sincere personal thanks to everyone.

The Society remains financially robust, has performed well in the last year and did not need to access any government financial support. It is a testament to our resilience and sustainability that we have been recruiting for further colleagues as the business continues to expand.

The Society is owned by you, our members, and your best interests are at the heart of everything we do. Offering competitive products allied to a first class service is a core strategic aim. Additionally, we strive to provide easy to understand processes to make your engagement with us fulfilling.

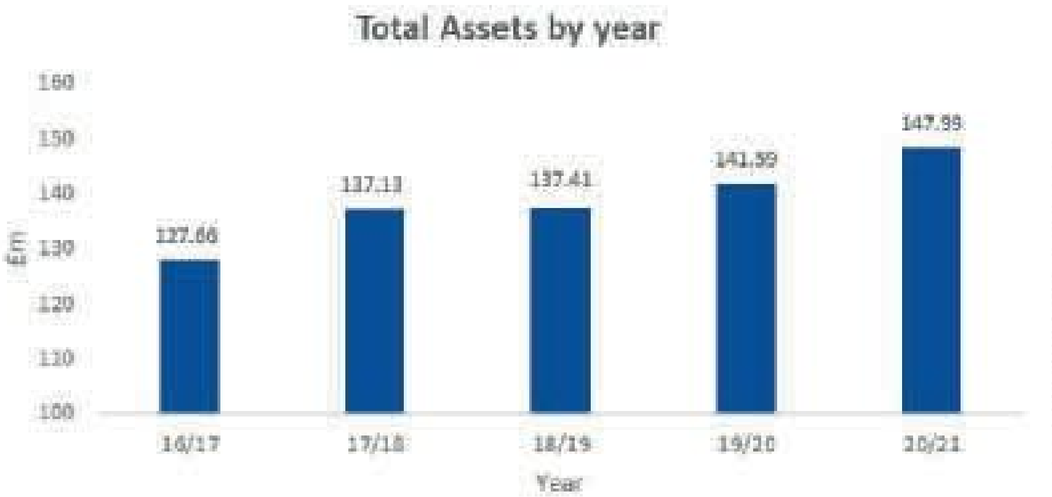
Providing a safe and secure home for savers' money remains an integral aspect of our strategy.

Growth

The last twelve months have seen the Society continue to grow the business, with increasing balances held by personal savers and owed by borrowers, despite the worsening economic situation and highly competitive mortgage market. In addition, during the first part of the business year, as the Chairman has stated, the pandemic caused the property market to close. However, since then, and assisted by the Government's stamp duty "holiday" mortgage lending has been buoyant and we have entered the 2021/2022 business year with a healthy pipeline of mortgage applications, thus giving cause for optimism.

The Society did make a number of changes to its lending criteria during the year to reflect the evolving economic situation in order to continue to prudently manage credit risk.

Savings account opening, and adding to existing accounts, proved popular, which reaffirms the Society's strategy of endeavouring to offer consistent value for money.

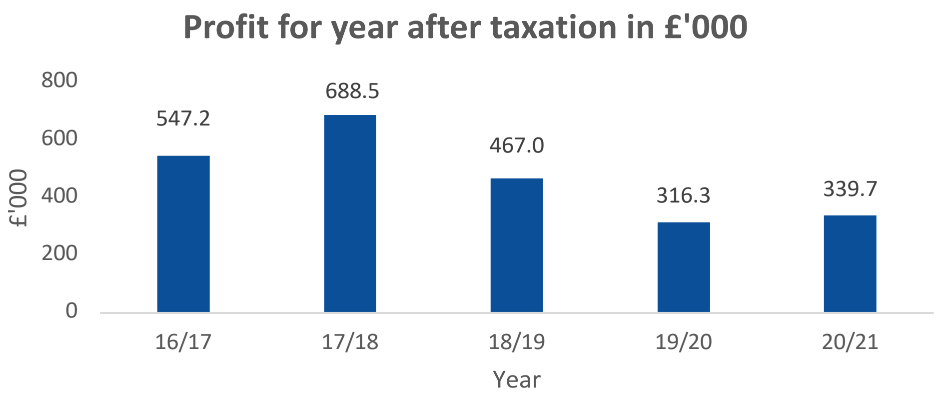


There was growth in both mortgage assets and savers' balances ahead of budget. The Society targeted a reduced level of liquid assets but as savings accounts were popular liquidity remained broadly constant. A modest and controlled reduction in liquidity will be sought to improve financial efficiency. Any future reduction in liquidity will be based on the need to retain high quality assets held.

Mortgage balances are at an all-time record of over £115m. This was driven by new lending in the period increasing year-on-year by almost 10%. This new lending was partially offset by a number of borrowers who took the decision to repay their debt from their own funds, which may have been driven by their concern over the worsening economic situation.

Profit / Capital

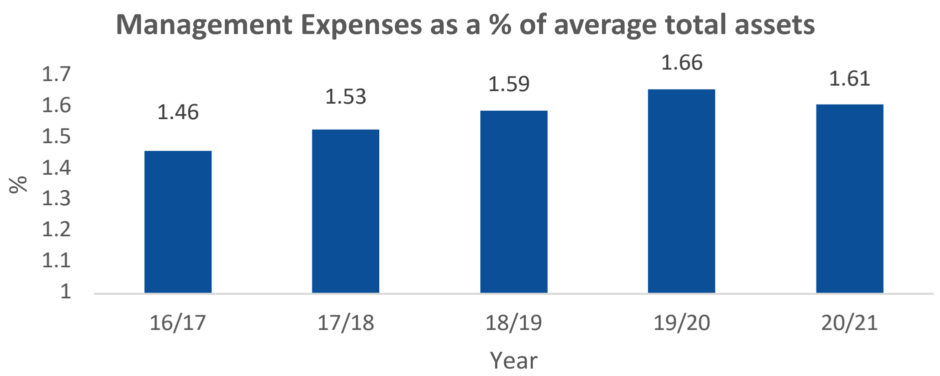
The level of profit reported this year shows a slight increase from last year, was entirely satisfactory and ahead of budget. Given the current and predicted economic position we have modestly increased our credit risk provisions in line with the accounting requirements. The Society does not have shareholders to pay dividends to, so seeks to optimise profit rather than maximise it. Capital, which is the accumulation of profit over the years, continues to increase as an absolute number. Our capital ratios remain robust, significantly greater than both regulatory and internal requirements, and the Society remains in a very sound and stable financial position.



Management Expenses

Expenses as a percentage of assets have decreased as a result of balance sheet growth. Each and every expenditure item is subject to evaluation and contracts with external suppliers are regularly reviewed to ensure they remain value for money.

The two major costs incurred are salaries and investment in Information Systems (IS). The Society continues to develop both its people and IS arrangements to ensure members continue to receive the level of service they have come to expect.



Members

The pandemic has caused a significant financial impact to many borrowers. As the Chairman has alluded we offered constructive forbearance to those impacted and will continue to do so into the future. Support from the Society to those borrowers in need is vital and will continue to be provided.

The material increase in new lending applications and the support given to existing borrowers seeking forbearance did impact service levels for a time. It was necessary therefore, for a short period, to suspend new lending applications both from our valued intermediary partners and directly from prospective customers in order to maintain a quality service.

The number of customers with the Society remained broadly static during the last calendar year, which was pleasing as for many months the Society had to suspend new savings account opening to control funds inflow and given the temporary cessation of mortgage enquires. Furthermore, 97% of new members, when asked during the last business year, stated they would recommend the Society to others.

These outcomes clearly demonstrate that members retain confidence in the Society. I remain passionate that we must continually seek ways to improve on the products and service we provide to members, and to simplify the processes we use.

Other Matters

The work undertaken in the community and charitable activities continues to play an important part in retaining our heritage and culture. Given the restrictions of the last year, in-person activity has been severely curtailed but has been switched, where possible, to other delivery mechanisms. By way of example, the Society, with other Leicestershire building societies financially supported a Leicestershire based charity who deal with, amongst other support areas, homelessness. In addition, the Society also supported another charity in the same sphere with equipment to help their clients. Our popular branch based token scheme to support charities was extended online.

In terms of awards, we have recently won the "Personal Finance Awards" "Best Self-Build Mortgage Lender" run by "The Money Pages" and was voted for by consumers. In addition, we have again been nominated by "What Mortgage" in the same category but at the time of writing results have not yet been announced.

I would like to thank all our business partners for assisting in the delivery of these results, and for their continued service to us during challenging times.

Looking Forward

The economic path forward is uncertain due to the effects of the pandemic. Unemployment and house price movement predictions are far from clear. There is a likelihood that credit conditions will deteriorate. However, the Society is financially and operationally well positioned to continue to grow and develop in a sensible and controlled manner, within defined risk appetites.

Our capital ratios remain very healthy and these also provide opportunity to grow the Society at a controlled and prudent rate. Importantly, this will not be at the expense of taking on unknown and greater lending risk. Continuing to expand our distribution further, both direct to market and via the intermediated area, will help drive this growth aspiration.

Market conditions, particularly price competition, are expected to remain intense and how the economy will restart after Covid-19 is important, and we are planning for steady profitability moving forward whilst retaining our enviable financial stability.

The Society is committed to a digitisation strategy but this will be carefully managed so as to provide member benefit in a secure manner. Technological changes around process simplification & improvement, automation and integration will continue to be identified and deployed where needed. Further security enhancements to our customer online offering are planned to be deployed shortly. Online onboarding of new savings members coupled with electronic withdrawal facilities is a longer term aspiration as are enhancements to our mortgage intermediary portal. The Society's investment in technology will continue.

Providing customer contact choice remains key – members should be able to decide how they communicate with us.

The Society is currently developing its climate change strategy and already permits borrowing to facilitate improvements to property to increase energy efficiency and reduce the carbon footprint. In addition, the Society has been actively recycling for many years. The Society is looking at measures to see if it can improve its estate energy efficiency.

As I conclude it is worth reflecting that the Society has, so far, successfully navigated its way through the current pandemic and many other turbulent times in its long history, and it will continue to handle whatever difficulties comes its way. We remain here to serve you to the best of our abilities.

P Tilley Chief Executive

20th May 2021

The Directors have pleasure in presenting the One Hundred and Sixty Fourth Annual Report, Accounts and Business Statement of the Society for the year ended 31st March 2021.

OBJECTIVES AND ACTIVITIES

The principal objectives of the Earl Shilton Building Society ("the Society") are to attract funds by offering a range of straightforward savings and investment products in order to make available loans secured on land and property, most notably residential lending.

The Society has been developing simple, transparent and competitive financial products and services which provide choice and good outcomes for our members for over 160 years, and will continue to do so for the foreseeable future. The Society strongly values its heritage and the trust of our members and will ensure they remain at the heart of how we operate.

It is the Society's intention to continue promoting thrift and homeownership by remaining a traditional mutual building society offering excellent customer service through a variety of distribution channels.

APPLYING THE UK CODE OF CORPORATE GOVERNANCE

The UK Code of Corporate Governance 2018 ("the Code") applies to listed UK companies. It requires them to explain how they have applied the governance principles which are contained within the Code, to enable a company's shareholders to understand how effectively a company has complied.

As a mutually-owned organisation, the Society does not have the equivalent of shareholders and is not directly subject to the Code.

Nevertheless, the Board has voluntarily chosen to follow most of the principles of the Code where they are considered relevant (and the Board deems them appropriate) to an organisation of this size.

To assist members, a detailed explanation of how the Society will apply, or explain why the Society is not applying, appears in the Corporate Governance Report at page 17.

COMPLIANCE AND REGULATION

The Society is regulated by both the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

We fully support and accept the need for, and the responsibilities associated with, regulatory compliance.

For members' information, shown below is a breakdown of costs incurred in respect of the various regulatory, compliance and ombudsman bodies.

	2021 £	2020 £
Financial Ombudsman Service	2,218	1,136
Financial Conduct Authority and Prudential Regulation Authority	8,079	7,160
Financial Services Compensation Scheme	4,855	6,820

The Society takes its responsibility to adhere to various laws, statutes and codes of practice seriously throughout the business and does not seek to avoid compliance with them. It is the Society's objective to not only comply with the letter of the various requirements but also the spirit and to be entirely transparent in its disclosures.

DONATIONS AND COMMUNITY SUPPORT

As a local Society the Directors believe that it is important to support worthwhile causes in a prudent manner. No donations were made for political purposes (2020: nil) and listed below are organisations that the Society has helped during the year to 31st March 2021. In total the Society made contributions of support amounting to £5,744 (2020: £4,989), including charitable donations of £1,918 (2020: £3,306).

Action Homeless; The Local Air Ambulance; East Midlands Dog Rescue; Leicestershire Cares; Motor Neurone Disease Association; LOROS; Macmillan Nurses; Quetzal; Rainbows Hospice Leicestershire; Toys On The Table; Wishes 4 Kids.

In addition, the Society and staff supported Heart Link (East Midlands Heart Care Association), which was the Society's nominated charity for the year.

CONDUCT RISK / TREATING CUSTOMERS FAIRLY

The Directors expect the Society to treat its customers fairly at all times. We would ask our members to let us know if they consider that we have not achieved this important commitment on any occasion. Do please contact our Chief Executive or the Senior Independent Director at the Society's Head Office in this regard. The Directors are determined to maintain the highest standards of honesty, integrity and fairness in the culture and conduct of the Society for the benefit of members.

The Society assesses and monitors culture via the Treating Customers Fairly & Conduct Risk Outcomes Management Information Report, emanating from the Retail Conduct of Business Risk Appetite Statement. Additionally, the Society has a Mission Statement and a Culture Statement. Cultural insights such as employee surveys, exit interviews, whistleblowing procedures and training data are used to review culture.

If a member has any significant matter they wish to bring to the attention of any Committee Chair they are invited to do so by contacting the Society's Secretary.

TAXATION

The Society has again been awarded the Fair Tax Mark. This is an independent accreditation which demonstrates our commitment to paying the right amount of tax and to be transparent in regards to our tax affairs. The Society considers that taxation makes an important contribution to wider society, and a taxation policy which sets out the key tax principles that the Society adheres to is available on the Society's website at www.esbs.co.uk.

STAFF

We believe in the value of personal service and have avoided a call centre approach to dealings with our members. The Directors know that our staff are the "front line" in dealing with our members and wish to thank all the team for their continued dedication and hard work.

EQUALITY AND DIVERSITY

The Society operates a Policy on Equality and Diversity to provide opportunity for all staff and Directors. No targets are deemed appropriate due to the Society's size and the fact we always seek to appoint the most appropriate candidate. The gender breakdown is detailed in the following table:

Role	Male (number)	Female (number)	Total (number)	Male	Female
Board	7	1	8	87%	13%
Senior Team	4	3	7	57%	43%
Staff	3	22	25	12%	88%
Total	14	26	40	35%	65%

CREDITOR PAYMENT POLICY

The Society's policy concerning the payment of trade creditors is to agree terms of payment, ensure that suppliers fulfil their contractual obligations and discharge the supplier's invoice for the complete provision of goods and services within the agreed payment terms. Amounts due to creditors are paid on average within 15 days of receipt of invoice (2020: 15 days).

AUDITORS

The Society's auditors, BDO LLP, who were appointed at the 2019 AGM, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution to this effect will be proposed at the AGM.

FINANCIAL RESULTS AND KEY PERFORMANCE INDICATORS

Key performance indicators for the last three years are shown below:

	2021	2020	2019
Gross capital	£12.29m	£11.95m	£11.63m
Operating profit before impairment and provisions	£457,667	£453,877	£537,950
Profit for the year after taxation	£339,686	£316,272	£467,005
Total assets	£147.99m	£141.59m	£137.41m
Mortgage balances	£115.04m	£110.30m	£106.88m
Share balances	£131.06m	£123.61m	£117,44m
Liquidity ratio as a percentage of shares & borrowings	23.67%	23.45%	23.63%
Management expenses as a percentage of average total assets	1.61%	1.66%	1.59%

An explanation of the terms used above is as follows:

Gross capital represents the accumulation of profit for the Society over the years and provides protection for savers and a fund against future losses.

Operating profit before impairment and provisions shows the difference between interest charged to borrowers and paid to savers after allowing for fee and commission income/expenses and the expenses of running the Society.

Profit for the year takes into consideration provisions (or recoveries) on loans, investments and other assets and liabilities as well as Corporation Tax. It is added to general reserves each year.

Total assets indicate the overall size of the Society and the resources available to generate future returns.

Mortgage balances equate to the total amount owed to the Society by borrowers less accumulated impairment loss.

Share balances represent the total sum invested by personal savers.

Liquidity refers to the Society's liquid assets as per the balance sheet and is used to meet commitments as they fall due.

Management expenses provide a cost ratio when compared to the Society's average size over the year.

Capital and Profit

Whilst delivering asset growth the Society maintained a strong capital position throughout the year. The Society uses a number of measures of capital as shown in the following table.

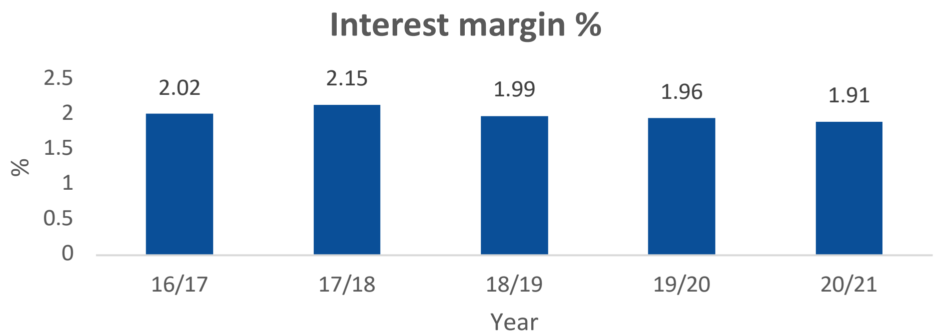
		2021	2020
Gross capital	Total	£12.29m	£11.95m
	As a % of total assets	8.30%	8.44%
Operating profit before impairment and provisions	Total	£457,667	£453,877
	As a % of average total assets	0.32%	0.33%
Profit for the financial year		£339,686	£316,272
Free capital (note a)	Total	£11.98m	£11.56m
	As a % of shares and borrowings	8.84%	8.93%
Core tier 1 equity capital	As a % of shares and borrowings	9.07%	9.23%
Risk-weighted core tier 1 ratio		24.77%	24.77%
Leverage ratio (note b)		8.19%	8.38%

Note a: Free capital is total reserves plus collective impairment provisions less tangible and intangible fixed assets.
Note b: The leverage ratio is a simplified measure of capital strength, calculated by dividing the core tier 1 capital by total assets plus mortgage commitments.

The risk-weighted core tier 1 ratio and the leverage ratio are measures of capital strength defined under UK regulations, and in both cases the Society's ratio is significantly higher than that required by the regulators. It is important that the Society maintains healthy profit levels to support its growth and to be able to continue its lending programme. The Society's Gross capital as a percentage of shares and borrowings is shown in the annual business statement on page 56.

Interest Margin

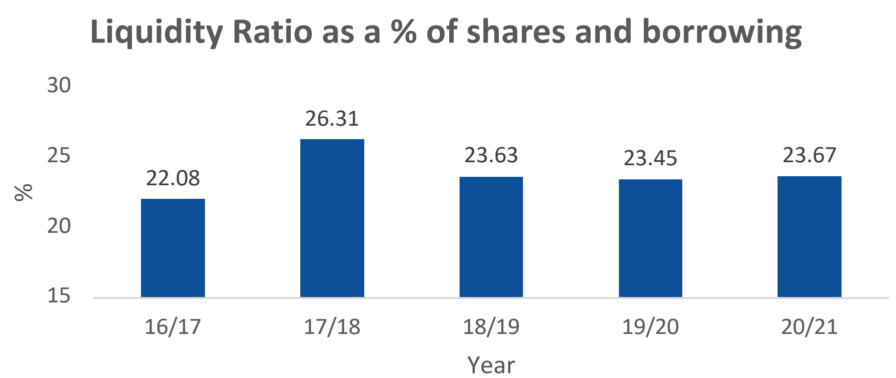
The net interest margin represents net interest receivable as a percentage of average total assets. This year, that has decreased to 1.91% (2020: 1.96%).



Total Assets

Total assets increased to £147.99m (2020: £141.59m), an increase of 4.52% (2020: 3.04%).

Liquid assets, as at 31st March 2021, in the form of cash and authorised securities were £32.06m (2020: £30.34m) which is 23.67% (2020: 23.45%) of shares and borrowings. These liquid assets, which are not lent to mortgage borrowers, have increased slightly during the year as a percentage of shares and borrowings. They are maintained at a level which balances operational efficiency whilst enabling the Society to meet all its commitments as they fall due. Liquid assets remain above the Board's internal assessment of its minimum requirements and the minimum regulatory requirement.



Mortgage Lending

During the year £22.45m (2020: £20.41m) was advanced to borrowers to buy, refinance or improve their properties. Total mortgage balances at the end of the year amounted to £115.04m (2020: £110.30m). Mortgage balances increased in the year by £4.74m (2020: £3.42m), an increase of 4.29% (2020: 3.20%). In common with other building societies, we experienced a number of cases in which borrowers could not meet their mortgage commitments. It continues to be the Society's policy to look at each individual case and try to make suitable arrangements which may include extending the term for repayment, temporary payment deferral or converting a capital and interest repayment mortgage to interest only. There were sixteen (2020: ninety five) mortgage accounts with forbearance measures at the end of the year, this included thirteen accounts (2020: ninety) where the Society had assisted borrowers with Covid-19 related forbearance. Provisions for impairment were £395,154 at the year-end (2020: £357,586). At 31st March 2021 there was one (2020: nil) mortgage account which was twelve or more months in arrears, more details on mortgage balances in arrears are given in note 22 on page 53. There were no properties in possession (2020: one) at the year end. The Society recognises a provision for the impairment of a mortgage asset where there is objective evidence that a loss event has occurred which may impact the future cash flows expected from the asset. This is explained further in note 1 of the accounts.

Shares and Deposits

Savers' and depositors' balances, which excludes amounts owed to credit institutions, increased by £6.57m (2020: increased by £5.43m) and amounted to £135.42m (2020: £128.85m), an increase of 5.10% (2020: increase of 4.40%). The retail savings market accounts for all of the Society's funding, with no short-term wholesale borrowing from other financial institutions as at 31st March 2021 (2020: £0.50m).

FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives and Policies

The Society has a risk averse culture and maintains a policy of low exposure to risk so as to maintain public confidence and to allow the achievement of its objectives.

The Society has a formal structure for managing risk, including a Board approved risk appetite statement, established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board of Directors, supported by its sub-committees, who are charged with the responsibility of managing and controlling the Society's risks, including the balance sheet exposure and the use of financial instruments for risk management purposes.

Principal Risks and Uncertainties

The most significant risk to the Society is that arising from the ongoing Covid-19 pandemic.

- **Covid-19 pandemic**

The Society is at risk from uncertainties surrounding the ongoing outbreak of the virus Covid-19 which was declared a pandemic on 11th March 2020. In response to the pandemic, in an effort to prevent the virus spreading, Governments around the world have imposed restrictions including travel restrictions, quarantines and facility closures. These measures are expected to have a severe negative impact on the UK Economy and the Bank of England has cut its base rate to the lowest ever level of 0.1% in response. The UK Government has guaranteed 80% of workers' wages up to a maximum of £2,500 to help prevent unemployment in this crisis and required mortgage lenders to offer a three month mortgage payment holiday if borrowers request it.

An increase in UK unemployment caused by the pandemic and the loss of income from those who are self-employed may affect borrower's capability to make mortgage repayments.

Other consequences, such as the impact on suppliers and the potential loss of key staff have been considered.

A range of possible outcomes has been considered within the Society's stress testing of both capital and liquidity. This has included a 33% reduction in the House Price Index, an increase in default rates as a result of unemployment and both increases and decreases in interest rates. This has shown that the Society is resilient in these adverse circumstances and that the business is sustainable. The Board considers that these are sufficient to cover the likely impact of the Covid-19 pandemic.

These risks are being closely monitored by the Board, so that early action can be taken if it is considered necessary.

Risks arise from the very nature of being a building society. The Society is a retailer of savings and mortgage products and lends liquid assets to wholesale market counterparties. The most significant of these risks are as follows:

- **Credit Risk**

This is the risk of loss as a result of borrowers failing to meet their obligations to repay their loans.

All loan applications are assessed with reference to the Society's Lending Policy and where appropriate reviewed by the Lending Committee of the Board of Directors. Appropriate credit limits, in keeping with the Society's low risk appetite, have been established by the Board for individual counterparties and sectors. The Lending Policy is updated annually to reflect current conditions in the financial markets, including further refinement of nature limits and underwriting criteria.

Lending to other financial institutions is restricted to those with investment grade external credit ratings but includes lending to unrated building societies after specific credit assessment against certain defined criteria. The Assets and Liabilities Committee of the Board monitors counterparty credit risk.

- **Operational Risk**

This is the risk of loss through failed or inadequate systems, human error or other external factors including cyber-attack against the Society's computer systems.

Operational risk is controlled by a system of internal controls, central to which is continuous risk assessment which identifies and assesses all risks that may arise from operational activities together with appropriate mitigating actions. The security of the Society's computer systems is given particular focus in the light of the increasing frequency and sophistication of cyber-attacks against organisations in general and financial institutions in particular.

The Society maintains policies and procedures for all key internal processes. Adherence to these is monitored by senior management and oversight provided by the Risk & Compliance Committee.

- **Liquidity and Cash Flow Risk**

This is the risk that the Society does not have sufficient financial resources to meet its liabilities as they fall due.

The Society's Liquidity Policy requires that liquid assets are held at all times which are adequate to ensure there is no significant risk that liabilities cannot be met as they fall due and thus ensure full public confidence in the solvency of the Society. This is achieved by maintaining a prudent level of liquid assets and generally by matching receipts from savers with net mortgage lending and not relying on borrowing from other financial institutions or government backed finance schemes.

- **Interest Rate Risk**

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the instruments' maturities. The Society has a small tranche of Base Rate tracker mortgages with interest rate floors and treasury instruments at fixed rates. This risk is managed by appropriate policies approved by the Board. The interest rate sensitivity of the Society as at 31st March 2021 is detailed in note 22 of the accounts.

- **Other Risks and Uncertainties**

The Board has identified other key emerging risks, chief among these in times of economic uncertainty are strategic and reputational risks which the Board monitors. These risks are associated with the future prospects in the housing market and the UK economy in general which continues to be supported by low interest rates.

The business risk of loss or reduction in profitability due to the failure to achieve business objectives is mitigated through the Society's corporate plan. The corporate plan sets out the strategic objectives and how key risks in achieving those objectives will be managed by the setting of detailed plans and monitoring of actual performance against these plans. The outlook for the coming year is heavily dependent on the ongoing impact of the Covid-19 pandemic which has already led to a reduction in interest rates and increased unemployment. The expected impact of the Covid-19 pandemic has been factored into the corporate plan.

Regulatory risk is inherent given the volume and complexity of regulatory change and related costs. The FSCS levy which is paid by the Society, enables claims made by the customers of other banks and building societies to be met. While the Society is not expecting to incur further regular interest or capital levies, the Society would be required to contribute to the cost of compensation paid to savers should another financial institution fail. The Directors manage and monitor these risks on an ongoing basis and consider that any new levy costs could be absorbed by the Society.

Further details of the Society's risk management framework, principal risks and risk exposures can be found in the Pillar 3 Report available on the Society's website at www.esbs.co.uk.

GOING CONCERN

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. Forecasts have also been prepared to assess the impact on capital, funding and liquidity positions of operating under stressed but plausible conditions, including a severe economic downturn arising from the Covid-19 pandemic.

On the basis of this assessment, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual accounts.

DIRECTORS

The following persons were Directors of the Society during the year: Paul E Beardsmore, Ian M Dale, Darren J Hickman, Sheryl A Lawrence, Laura J Mackie, Martin J Rice, Alex C Robinson, John Stables, Paul Tilley and Stephen T Wigfull.

Ian M Dale is the Society's Senior Independent Director. Ian is an experienced former building society senior manager and will be pleased to look at any issues members might have that they would prefer not to raise in the usual way with the Society's Management Team or Chairman.

Ian M Dale and Paul Tilley retire by rotation and, being eligible, offer themselves for re-election. In accordance with Rule 26(1), Darren J Hickman and Alex C Robinson also offer themselves for election by the members. In the Notice of Annual General Meeting you will find brief biographical notes on the Directors standing for re-election and election.

At 31st March 2021 no Director had any interest in shares of any associated body of the Society.

On behalf of the Board of Directors

M J RICE Chairman

20th May 2021

Earl Shilton Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. A schedule of interest rates paid during the year ended 31st March 2021 is included in the AGM pack.

INTRODUCTION

The purpose of this Report is to inform members of the current policy for remuneration of the Society's Directors including the two Executive Directors. In particular, the Report provides details of the different elements of the Executive Directors' remuneration and explains the process for determining them. The Report also notes details of incentive payments where these are made to both the Executive Directors and members of staff.

An advisory resolution will be put to the Society's AGM inviting members to vote on the Directors' Remuneration Report.

The Society complies with the relevant aspects of the FCA's Remuneration Code.

REMUNERATION POLICY

The Society's Policy is to remunerate its Executive Directors through a combination of salary and benefits, which are regularly compared with other building societies and comparable financial institutions.

THE REMUNERATION COMMITTEE

The Committee comprises three Non-Executive Directors. It is responsible for determining the remuneration levels of the Executive Directors, as well as the Board Chairman and senior staff within the Society.

The Committee recommends to the Society's Board fee levels for Non-Executive Directors and salary and benefit levels for all other members of staff. The Committee meets at least twice a year. The members of the Committee during the year are detailed on page 18 of the Annual Report. Staff morale is subject to ongoing review by the Committee. Staff opinions are periodically sought via anonymised surveys.

The Committee takes account of the UK Corporate Governance Code 2018, as far as it is relevant and appropriate to an organisation of our size.

EXECUTIVE DIRECTORS' REMUNERATION

This aspect of the Remuneration Policy is designed to attract and retain high calibre and well-qualified Executives, having the skills and experience necessary to lead a small but sophisticated business operating in a highly regulated market. To achieve this, the Committee seeks to ensure that the overall level of remuneration awarded to the Executive Directors is fair, competitive, simple and reasonable by comparison to remuneration offered by similar building societies and equivalent financial institutions, as well as the contribution made by the Executive Directors to the success of the Society during the year. Executive Director remuneration is considered alongside staff remuneration. Staff are notified of the percentage increase in Executive Director pay.

The Remuneration Committee operates independently and its discussions and recommendations to the Society's Board are free from influence by the Executive Directors.

BASIC SALARY

Basic salaries are reviewed annually by reference to jobs carrying similar responsibilities in comparable organisations.

INCENTIVES

A non-contractual payment calculated as a percentage of basic salary has been paid to all staff, including Executive Directors, in December for a number of years. The percentage amount is variable year on year with all staff receiving the same. This year a non-contractual payment of 1.75% of basic salary was paid (2020: 1.5%). Whilst the Society does not currently operate any formalised incentive schemes linked to expected levels of performance in a normal business year, a one off non-contractual payment to each member of staff of £500 was agreed, as a special recognition of the operational measures that staff had to operate under, to deal with the ongoing Covid-19 pandemic and its impact upon the Society's business.

BENEFITS

The Society offers other taxable benefits to Executive Directors including a fully expensed car, health care provision and permanent health insurance. As an alternative, a cash allowance is available in substitution for a fully expensed car and will be included in basic salary.

PENSION BENEFITS

The Society operates a contributory money purchase scheme and makes contributions for all qualifying staff, including Executive Directors. Pension contributions are calculated against basic salary only. The pension contribution rate for the Executive Directors is the same as the staff contribution rate.

DIRECTORS’ REMUNERATION REPORT

CONTRACTUAL TERMS

The service contract terms for Executive Directors include a notice period of not less than six months by the individual and the same period by the Society. These terms are not alterable in the event of a transfer of engagements to another Society where employment is to be terminated.

NON-EXECUTIVE DIRECTORS’ REMUNERATION

All Non-Executive Directors are remunerated by fees which are reviewed annually and compared with other building societies and relevant comparable institutions. The Board Chairman, Chairman of the Audit Committee, Chairman of the Risk & Compliance Committee, Chairman of the Remuneration Committee and the Senior Independent Director also receive additional payments reflecting the additional duties and responsibilities of their roles. The Chairman of the ALCO currently receives no additional payment given his concurrent role as Chief Executive.

Non-Executive Directors do not receive a salary or other taxable benefits and do not have service contracts, but are entitled to claim reimbursement of expenses incurred on behalf of the Society.

FURTHER INFORMATION

Details of remuneration paid to all Directors are contained in note 6 on page 43 of this Report and Accounts. No compensation arrangements are entered into which might reward poor performance.

The Remuneration Committee's complete Terms of Reference are available for download on the Society’s website at the following address: www.esbs.co.uk.

During the period to which this report relates, the role of the Chairman of the Remuneration Committee was transferred between Directors. Paul E Beardsmore fulfilled this role until his retirement on 30th November 2020, where after the role was fulfilled by Laura J Mackie.

L J MACKIE
Chair of the Remuneration Committee

20th May 2021

OVERVIEW

The Board is committed to best practice in Corporate Governance as it affects the Earl Shilton Building Society. The Board has voluntarily chosen to follow most of the principles of the UK Corporate Governance Code 2018 where they are considered relevant (and the Board deems them appropriate) to an organisation of this size and lack of complexity.

The Board assumes full responsibility for the overall strategy, the operation of the Society and the monitoring of performance. The Directors continue to believe that members are best served by the Society retaining its mutual status.

In usual circumstances, the AGM provides members with an opportunity to engage with the Directors either formally or informally. However due to the continuing impact of the Covid-19 pandemic, this year's AGM will once again be held virtually with members invited to attend via "Zoom". In these circumstances voting will still be possible online, by post or as a last resort in branch. If you are considering attending the AGM, please visit the Society's website (www.esbs.co.uk) to check the latest position. To encourage voting, the Society will financially support two charities, each of which will receive a donation based on the number of votes received. We use member questionnaires to obtain views on the Society. In the event of a significant vote (20% or more) against any resolution at the AGM, the Society would seek feedback from the membership to identify if any remedial action was considered necessary by the Board.

PRINCIPAL FUNCTIONS OF THE BOARD

The principal functions of the Board are to:-

- set the Society's strategy and risk appetite;
- measure its progress;
- ensure sufficient resources are available to meet the objectives;
- ensure the Society is prudently managed; and
- comply with all legal and regulatory requirements that affect the Society.

The Board meets at least nine times a year and separately undertakes a formal review of strategy at least annually. Additional Board meetings take place when required.

The Chairman is responsible for the leadership of the Board, setting its direction and culture and ensuring effective contributions from all Directors.

The Board reviews the composition of the Committees on an annual basis to ensure each Committee has the appropriate expertise. Likewise, the Board reviews the Committees' Terms of Reference to ensure they remain relevant and up to date. These are available on request from the Society's Secretary and on the Society's website at www.esbs.co.uk.

The Board delegates certain functions and in some situations decision making to various Committees as follows:

COMMITTEES

Assets and Liabilities Committee ("ALCO")

- the ALCO monitors the Society's performance in key areas of financial risk including management of the balance sheet, interest rate margin and liquidity, ensuring compliance with the Society's financial risk policies and regulatory limits;
- it reviews and approves the risk characteristics and pricing structures of retail savings and mortgage products;
- it reviews economic trends that may impact the Society and recommends strategic changes to the Board if necessary.

The ALCO consists of four Non-Executive Directors. The following Non-Executive Directors served during the year: M J Rice, I M Dale, L J Mackie and D J Hickman. In addition, the two Executive Directors, the Business Development & Marketing Manager, the Regulation & Compliance Manager, the Financial Controller and the Risk Officer are members of the Committee. The composition of the Committee changed during the year as follows: D J Hickman joined the Committee on 21st December 2020 replacing S A Lawrence.

The ALCO meets at least nine times a year.

Audit Committee ("AC")

- the AC considers audit matters including internal and external audit arrangements, adequacy of internal controls and financial reporting;
- it approves the Internal Auditor's Combined Assurance Plan which is determined by the risk profile of the Society and receives and reviews their reports;
- it advises the Board on whether the Society's annual accounts give a fair, balanced and understandable assessment of the Society's position and performance, business model and strategy.

The AC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: J Stables (Chairman), P E Beardsmore, I M Dale and A C Robinson. In addition, the Executive Directors, the Regulation & Compliance Manager, the Customer Services Manager and the Financial Controller and representatives from the external auditor and the outsourced Internal Auditor attend by invitation. The composition of the Committee changed during the year as follows: A C Robinson joined the Committee on 11th February 2021 replacing P E Beardsmore.

The AC meets at least four times a year including an evaluation, at the relevant time, of significant aspects of the financial statements covering areas such as materiality, profitability, accounting policies and judgements, and considers any relevant observations on these matters from the external auditors.

Full details of the work of this committee can be found in the Audit Committee Report on pages 26 and 27.

Risk & Compliance Committee ("RCC")

- the RCC considers the inherent risks in the business as detailed on pages 12, 13 and 14 of the Annual Report. The risks are identified and recorded in the Risk Register which is reviewed and monitored to ensure compliance with the Board's risk appetite;
- It reviews and recommends to the Board risk policies and risk limits in accordance with the overall risk appetite of the Board.
- it approves annually a Compliance Plan and reviews adherence to it.

The RCC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: L J Mackie (Chairman at a point in the year), D J Hickman (Chairman at a point in the year) and M J Rice. In addition, the Executive Directors, the Regulation & Compliance Manager, the Risk Officer, the Information Systems & Estates Manager attend by invitation. The composition of the Committee changed during the year as follows: D J Hickman joined the Committee on 11th February replacing S A Lawrence.

The RCC meets at least four times a year.

Nominations Committee ("NC")

- the NC considers succession and future senior appointments, especially relating to the appointment of Non-Executive Directors and makes recommendations to the Board.

The NC consists of three Directors two of whom are always independent. The following Directors served during the year: M J Rice (Chairman), P E Beardsmore and J Stables. M J Rice does not act as Chairman of the Committee when discussing the Chairman of the Board position. The composition of the Committee is expected to change next year as follows: A C Robinson is expected to join the Committee as Chairman on the 21st June 2021 replacing P E Beardsmore with M J Rice retaining membership.

The NC meets at least once a year.

Future Non-Executive Director recruitment relies upon various options including open advertising, in newspapers and on the internet. Different combinations can be employed dependent upon the particular skills that the Board requires an appointee to have to ensure its mix of skills and experience match the future corporate governance needs of the Society. During the year, Baxter Neumann, Search Consultants, assisted the Society in the structured process of appointment of two new Directors. The Society also employs specialist advisors who are able to assess a proposed appointee against the specification the Board has identified.

Remuneration Committee ("REMCO")

- the REMCO's responsibilities are contained in the earlier Directors' Remuneration Report.

The REMCO consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: P E Beardsmore (Chairman at a point in the year) L J Mackie (Chairman at a point in the year), A C Robinson and M J Rice. The composition of the Committee changed during the year as follows: M J Rice joined the Committee on 13th August 2020 replacing S A Lawrence and A C Robinson joined the Committee on 11th February 2021 replacing P E Beardsmore. The Executive Directors attend the meetings but are requested to leave relevant parts of the meeting if this is considered necessary.

The REMCO meets at least twice a year. No Remuneration Consultants were used during the year by the Committee in respect of the assessment of remuneration levels.

Lending Committee ("LC")

- the LC assesses mortgage applications that fall outside the Executive mandate.

The LC currently consists of all Directors and decisions can be made by any three members of which two must be Non-Executive Directors. The LC meets on an ad hoc basis.

ATTENDANCE AT MEETINGS

The figures in brackets are the maximum number of meetings that a Director could attend.

Director	Full Board (including Strategy Meetings)		ALCO		RCC		AC (including Accounts Meeting)		NC		REMCO	
P E Beardsmore	7	(7)	-	-	-	-	4	(4)	1	(1)	*1	(1)
I M Dale	11	(11)	9	(9)	-	-	5	(5)	-	-	-	-
D J Hickman	4	(4)	3	(3)	*1	(1)	-	-	-	-	-	-
S A Lawrence	1	(1)	-	-	-	-	-	-	-	-	-	-
L J Mackie	11	(11)	9	(9)	*4	(4)	-	-	-	-	*2	(2)
J Stables	11	(11)	-	-	-	-	*5	(5)	1	(1)	-	-
M J Rice	*11	(11)	9	(9)	4	(4)	-	-	*1	(1)	2	(2)
A C Robinson	4	(4)	-	-	-	-	1	(1)	-	-	1	(1)
P Tilley	11	(11)	*9	(9)	-	-	-	-	-	-	-	-
S T Wigfull	11	(11)	9	(9)	-	-	-	-	-	-	-	-

* Chairman at the relevant meeting throughout the year or for part of it. Where Directors are not members of a Committee but attend by invitation no record is shown above.

BALANCE AND INDEPENDENCE

The offices of Chairman and Chief Executive are distinct and are required to perform different duties. No one person may fulfil both roles. The Chairman is responsible for leading the Board, ensuring its effectiveness and communicating with the Society's members on behalf of the Board. The Chief Executive is responsible for implementing the strategy agreed by the Board and managing the Society's business and operations within the parameters set by the Board.

The Senior Independent Director is Ian M Dale who is available to members if they have concerns regarding their membership of the Society and do not wish to contact either the Chairman or Chief Executive.

The Non-Executive Directors periodically meet without the Executive Directors in attendance to provide further evidence of independent judgement.

BOARD APPOINTMENT AND PROFESSIONAL DEVELOPMENT

The Board regularly assesses the range of skills and experience of the Directors to determine if they match the needs of the business currently conducted and that being developed.

Recruitment of Directors follows a rigorous, formal and transparent procedure and once a Director is appointed an induction process is undertaken.

All Directors must meet the tests of fitness and propriety expected by the PRA and the FCA. All Directors who hold a Senior Management Function ("SMF"), as prescribed by the PRA and the FCA, must be registered with the regulators as an Approved Person. Directors who do not hold a SMF must be notified to the regulators.

The Chairman of the Board ensures that the Directors are provided with sufficient information and training to enable them to discharge their duties as Directors.

Directors must stand for re-election at least every three years in accordance with Rule 26 of the Society's Rules. The Board expects that, in accordance with the UK Corporate Governance Code 2018, Non-Executive Directors will serve for a maximum period of nine years but in exceptional circumstances this may be extended and in those circumstances, the Non-Executive Director concerned will be required to stand for annual re-election. The Board considers all Non-Executive Directors to be independent in character and opinion except the person holding the role of Chairman of the Board who can only be considered independent at the date of appointment.

In respect of Ian M Dale and Paul Tilley who are standing for re-election this year and Darren J Hickman and Alex C Robinson who are standing for election, the Board considers that they continue to be effective, committed to the Society and provide the balance of skills and experience to enable the Board to discharge its duties.

All Directors are annually appraised individually with Directors taking responsibility for their development needs in conjunction with the Chairman. The Chairman evaluates the contribution made by all other Directors. The Chairman is similarly evaluated by the other Directors led by the Senior Independent Director. The Board, ALCO, Audit Committee and Risk & Compliance Committee are individually subject to an annual self-evaluation.

The Board is responsible for the appointment and scrutiny of the Executive Directors as well as holding them to account and ultimately for their removal.

Prior to appointing a Director, and each year during their tenure, the Board assesses the capacity for each Director to undertake the role with the Society having due regard to time and external commitments. It is envisaged that an Executive Director would not hold more than one other significant appointment outside of the Society. Board approval is required prior to any Director taking on additional appointments after they become a Director of the Society.

Directors have access to the Society's Secretary who advises on governance matters. The appointment and removal of the Secretary is a matter for the whole Board.

APPLICATION OF THE CORPORATE GOVERNANCE CODE

The Code has five sections, each setting out 'principles' that should be followed, with further detailed 'provisions', explaining in more depth how the principles should be applied.

To assist members, the principles of each section are reproduced below and an explanation of how these have been applied/disapplied follows. To assist readership, the principles are shown in italic text and are enumerated alphabetically, from A to R, appearing under five section headings, following the format of the Code.

With one exception, the provisions are not referred to.

If you wish to read more about the Code, you can view it at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

UK Code on Corporate Governance

1. Board Leadership and Company Purpose

'A. *A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society*.'

Commentary:

The requirement for and composition of the Society's Board is contained in the Society's Rules. Established law requires the Board to have regard to the Society's present and future membership, to ensure a sustainable business that continues to generate economic value, from intermediating between saving and borrowing members, creating capital from retained profit to support present and future members who wish to save, or to borrow to help them buy and improve their own homes.

Consistent with being a mutually owned organisation, the Board does not consider itself 'entrepreneurial' in the normal sense of that word, or in the context of the Code (which principally applies to limited companies), since that would imply taking financial risks which may not be in the interests of its members and the sustainability of the Society, or seeking to act beyond its purpose. However, the Board strives to ensure the Society remains profitable, efficient and to be innovative, wherever it can do so.

'B. *The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture*.'

Commentary:

The Society's purpose is defined by the Building Societies Act 1986. The Board may not act beyond that purpose. The Board defines and monitors the Society's strategy and culture, which are linked to providing members with savings and mortgages.

Its Directors are required to lead with integrity at all times, being consistent with the established legal duty of a building society Director to act in the best interests of its members, and to recognise that all Directors are regulated by the 'Senior Managers Certification Regime' ('SMCR'), enforced by the Prudential Regulation Authority and the Financial Conduct Authority.

The Society operates a framework to provide assurance that Directors meet the fitness and propriety standards required by SMCR.

Strategy forms part of the Board agenda and two separate meetings are undertaken each year.

The Society's Culture and Mission Statements are promoted to members via its website.

'C. *The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed*.'

Commentary:

The Board must ensure the Society can operate effectively at all times. It monitors business performance by the use of comprehensive and detailed management information and oversees how the Society's risk and control framework is being operated. A comprehensive Committee structure is in place to facilitate this control mechanism via a three lines of defence model.

'D. *In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties*.'

Commentary:

The Board reports formally to its members at the Annual General Meeting of the Society each year. In usual circumstances all members are invited to attend and may pose questions on the Annual Report and Accounts, the Auditors Report as well as the general business of the Society. However, due to the continuing impact of the Covid-19 pandemic, the Board expects that this year's AGM will once again be held virtually with members invited to attend via "Zoom". In these circumstances arrangements will be made for members to ask question(s) if required in advance of the AGM. Members are also given voting rights on key decisions, as required by the Society's rules. Voting by post/on-line/in branch (the latter as a last resort this year) or by representative is provided for where a member cannot attend in person, with voting overseen by an independent scrutineer.

The Society's other two key stakeholders are its regulators, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The PRA and FCA are active in monitoring the Society's performance and operations in order to ensure it observes the extensive regulations which all building societies are subject to (designed to ensure the safety and soundness of the financial services sector, protect customers and promote competition).

Members' views are sought via a range of questionnaires.

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

Commentary:

The Board is satisfied that its human resources policies are consistent with ensuring the long-term success of the Society. For instance, it rewards staff by reference to prevailing market rates for the Society's locality and does not have any form of bonus schemes that might encourage unethical practices or otherwise target sales of its products by incentivisation.

The Society maintains speak-up (or often referred to as a 'Whistleblowing') arrangements, allowing any member of staff to raise a concern in confidence, which would be subject to investigation and considered independently, with appropriate action being taken when required. This complies with the Public Interest Disclosure Act 1998, as amended.

2. Division of responsibilities

'F. *The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate.*
In addition, the chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.'

Commentary:

The Chairman's responsibility for leadership of the Board is made clear by their job description. The Chairman must be satisfied that the Board is properly advised at all times. Their performance is subject to annual review, conducted by the Society's Senior Independent Director, but involving all other members of the Board. The annual fee payable for the Chairman's role is determined by the Board's Remuneration Committee, which for this item of business the Chairman does not attend. No other incentives of any kind are payable. The Chairman is subject to annual re-election by the Board, and approval to hold the position of Chairman is required under SMCR, given jointly by the Prudential Regulation Authority and Financial Conduct Authority.

The Chairman is considered independent at the time of appointment but because of a closer working relationship with the Chief Executive Officer, may not be considered so throughout their tenure. Nonetheless, the Board expects a candidate for the position of Chairman to be able to demonstrate that they are capable of exercising objective judgement, that they can promote a culture of openness and debate at all times and be able to ensure the Board maintains an independent view of the performance of the Chief Executive Officer.

It is expected that a Chairman would normally only act in that capacity for a maximum period of nine years (whether as Chair or taking into account any initial period as an independent Non-Executive Director before being elected to become Chairman) after which they are expected to retire. The Society's Senior Independent Director along with its Nominations Committee will be expected to lead the process to select a successor to the incumbent Chairman (usually due to their proposed retirement or the completion of the maximum term of nine years), upon which all members of the Board, including the incumbent Chairman, may vote, as permitted by the Society's Rules. The final appointment of a successor will be by majority vote and provided the electee has received approval to hold the office of Chairman from the Financial Conduct Authority and the Prudential Regulation Authority.

The Chairman must facilitate constructive relationships among Directors and allow and encourage all members of the Board to contribute to its business, supported by appropriate reporting from the Executive Directors. The Chairman conducts an annual review of the performance of members of the Board, save for the Financial Director who is a direct report to the Chief Executive Officer, who is responsible to conduct their performance review.

'G. *The Board should include an appropriate combination of executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business*.'

Commentary:

The Board is comprised of eight Directors, five of whom are Independent Non-Executives (the Chairman not being considered as Independent) and two of whom are Executives. This ensures the Society's Executives' can be held to account at all times. The Board's composition and skills are reviewed annually by its Nomination Committee, chaired by the Chairman. The Nomination Committee is also responsible for recommending all future appointments to Executive or Non-Executive positions (for example, following retirement, or resignation), subject in each case to the final approval of the Board.

The Society's Rule 12(4)(a) requires:

'the Board – (a) shall ensure the direction and management of all affairs and business of the Society by a sufficient number of Individuals fit and proper to be Directors or other Officers, in their respective positions, with prudence and integrity, in the best interests of the Society, in accordance with the Statutes, the Memorandum and these Rules'.

This rule imposes an accountability for the direction and management of the Society upon the Board itself. In practice, the Board delegates the management of the Society to its Executive Directors but subjects them to oversight and makes them responsible to report to the Board and its sub-committee meetings on all aspects of the Society's business.

'H. *Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account*.'

Commentary:

Appointment to the Board is subject to a Director being made aware of the time commitment that will be expected of them, and the Board being satisfied that the appointee will be able to honour that expectation throughout their tenure, particularly having regard to any other business commitments they may have from time to time.

Directors are required to annually disclose other business commitments including time spent, which is then subject to oversight by the Chairman.

'I. *The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.*'

Commentary:

The Board operates under detailed procedures set out in a Board Procedures Manual, maintained by the Society's Secretary. The Board considers its effectiveness annually and challenges itself on all aspects of its efficiency and the oversight it provides.

3. Composition, Succession and Evaluation

'J. *Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths*.'

Commentary:

The Board's Nominations Committee meets annually (and more frequently when required) to consider succession plans, the requirements for new appointees, and the desired experience when a new Director is to be appointed.

The Committee is responsible for interviewing candidates for appointment and making a recommendation to the Board. As a minimum, all prospective appointees must possess the required experience.

The Society has a policy on equal opportunities and will consider applications from all sectors of society, without regard to race, gender, religion or disability, but subject in all instances to a prospective candidate demonstrating the desired experience and an understanding of the significant duties to which a Director is subject in law and the accountabilities which the role will impose upon them. In this respect, the Society does not actively promote 'diversity' in the context mentioned, since to do so may limit an appropriate appointment based on the experience and skills which the Society seeks. However, its policy on equal opportunities fully reflects the Equality Act 2010 and ensures that it does not discriminate against any one societal segment because of race, gender or social and ethnic backgrounds, and will always seek to appoint the most appropriate candidate.

All opportunities to join the Board as a Director are advertised, usually through a specialist recruitment agency or by open advertisement. Wherever possible appointees will be preferred if they are likely to live within 50 miles of the Society, or have some other substantive connection with Leicestershire, although this does not exclude appointees not fulfilling these requirements if their experience and skills are fully aligned with the expectations of the appointment and they are considered better suited in comparison with other candidates. Applications are welcomed from the Society's membership, in accordance with its Rules.

'K. *The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed*.'

Commentary:

The first element of this principle is addressed in J. above and the Society complies. The second element is expanded upon by the provision associated with it. This specifically provides that:

'*All Directors should be subject to annual re-election. The Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success*.'

The Society has chosen not to apply annual re-election of its Directors. It does so for several reasons: first, appointments are made for a fixed term of three years, subject to a maximum term for Non-Executive Directors of nine years' service (i.e. three successive terms). This can be terminated before the end of the three-year period by a majority of Directors voting to remove a particular Director in accordance with the Society's Rules, although this is only likely to be exercised if the Board considered a Director was not contributing to the Board, or their skills were no longer aligned to the Society's needs but they declined to voluntarily resign from their post. Secondly, the performance of all Directors is subject to annual appraisal by the Chairman, who must also be satisfied and able to certify that each Director continues to exhibit the 'fit and proper' requirement of SMCR. Thirdly, both the Prudential Regulation Authority and the Financial Conduct Authority have enforcement powers, allowing them to discipline and debar a Director from serving in that capacity, either as a Director of the Society or elsewhere in financial services, in the event of misconduct or serious dereliction of duties. Finally, under certain circumstances, criminal proceedings may be brought against an errant Director.

The Chairman's annual recertification of a Director must be thoughtful and given in upmost good faith, having regard to the Director's continuing ability to contribute to the stewardship and effective governance of the Society, in the interest of its members.

Given this rigorous framework and the depth of regulation to which the Society is subject generally, annual re-election of all Directors would not enhance materially the governance or accountability that already exists.

'L. *Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively*.'

Commentary:

The Society has developed a detailed process of evaluating the Boards effectiveness which it normally employs each year, tested against a range of criteria which explore all aspects of its purpose. From time to time the Society will consider using an external facilitator for this process. The requirement to ensure each Director is annually appraised (including the Chairman) is referred to in the responses to principles F and K.

4. Audit, Risk and Internal Control

'M. *The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements*.'

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

Commentary:

Part VIII of the Building Societies Act 1986 makes detailed provision for the content and the auditing of the Society's accounts, going considerably further than the principles of the Code.

The Society's independent External Auditors make a report to the Annual General Meeting of the Society, which is subject to members approval each year.

The Society also employs professional Auditors to fulfil the expectation of an internal audit function and the Internal Auditors work on an annual programme, testing the design of controls and the effectiveness of their operation. Both Internal and External Auditors report to the Board's Audit Committee, chaired by a Non-Executive Director. That Committee reports to the Board.

'O. *The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives*.'

Commentary:

The Society has adopted a robust framework to identify, manage, monitor and assess the principal risks to which it is subject.

It has a Regulation & Compliance Manager and a Risk Officer who jointly oversee the internal control framework. Both the Regulation & Compliance Manager and the Risk Officer report into the Board's Risk & Compliance Committee, chaired by a Non-Executive Director. That Committee reports to the Board.

5. Remuneration

'P. *Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy*.'

Commentary:

The Board is ultimately accountable for the determination of the Society's strategy and promoting its long-term sustainable success. Execution of the strategy is delegated to the Chief Executive Officer, subject to Board oversight.

The Society rewards its Chief Executive Officer by reference to market rates for a comparable society or equivalent and taking account of skills, attributes and flight risk. The performance of the Chief Executive Officer is reviewed by the Board (led by the Chairman) annually and that process has regard to the delivery of the strategy and the financial standing of the Society at the end of its business year.

Remuneration rewards are determined, and considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference and notified or recommended to the Board as necessary. They generally reflect annual price inflation and evidence of pay awards at comparator firms.

The Society reserves the right to introduce incentive arrangements for all personnel and/or the Chief Executive Officer's performance at some time in the future (linked to strategy and long-term sustainability) but has not chosen to do so historically, reflecting a desire not to drive inappropriate behaviours. Any future bonus scheme (with none planned currently) would have to reflect regulatory expectations and may include provision for forfeiture and clawback in certain circumstances.

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

Commentary:

Remuneration is determined, or considered, as appropriate, by the Remuneration Committee in accordance with its Terms of Reference, and notified or recommended to the Board as necessary. The Chairman of that Committee reports upon its activities on pages 15 and 16 of this report. The Board determines the remuneration payable to the annual Non-Executive Directors fees and personnel who are not part of the Executive and not a Director, by voting on proposals brought forward by the Remuneration Committee.

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

Commentary:

The Remuneration Committee is comprised of three independent Non-Executive Directors and, amongst other things, takes account of the expectations of this principle.

M J RICE
Chairman

20th May 2021

AUDIT COMMITTEE REPORT
for the year ended 31st March 2021

The Audit Committee (“AC”) acts with authority delegated to it by the Board to have oversight of the Society’s financial reporting, adequacy of internal controls and the effectiveness of both internal and external audit. This report gives details of the responsibilities of the AC and the work performed over the year.

Committee responsibilities
The primary responsibilities of the Committee are as follows:

- Assess the effectiveness of the systems of inspection and internal control;
- Review, monitor and assess the integrity of the financial statements, including accounting policies and significant reporting issues and judgements and advise the Board as to whether the Annual Report and Accounts, taken as a whole, gives a fair, balanced and understandable assessment of the Society’s position and prospects;
- Monitor and review the performance of the outsourced internal audit function;
- Oversee the relationship with the external auditor, review the independence of the external auditor and assess the effectiveness of the external audit process;
- Conduct the tender process and make recommendations to the Board about the appointment, remuneration (and terms), reappointment and removal of the internal auditor and external auditor;
- Report to the members if the Board failed to accept the Committee’s recommendations regarding the external auditor’s appointment, reappointment or removal explaining the reasons why the Board has taken a different position;
- Review and approve the annual internal and external audit plans;
- Monitor the provision of non-audit services by the external auditor; and
- Ensure that the Society has an effective whistle-blowing policy.

Membership and attendance
The AC consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: J Stables (Chairman), P E Beardsmore, I M Dale and A C Robinson. In addition, the Executive Directors, the Regulation & Compliance Manager, the Customer Services Manager and the Financial Controller and representatives from the external auditor and the outsourced internal auditor attend by invitation.

I M Dale, J Stables and A C Robinson have recent relevant financial experience and the AC as a whole has competence relevant to the sector.

The Committee meets at least quarterly, and at least once each year with the external auditor and the internal auditor without Executive Directors or Senior Management being present.

Following each Committee meeting, the minutes of the meeting are distributed to the Board.

Significant Judgements in relation to the financial statements
The Committee examined and challenged the key assumptions and areas of judgement made in the preparation of the financial statements. These were principally as follows:

- Loss provisioning: the Society calculates impairment provisions by use of the methodology and judgements as noted in the Accounting Policies in Note 1 to the accounts. The Committee has monitored the quality of the Society’s loan book and has reviewed the appropriateness of the overall level of impairment provision. The Committee is satisfied with the provisioning methodology and the amounts provided.
- Effective Interest Rate (EIR) adjustments: interest income is recognised using a constant yield over the expected behavioural life of mortgage loans. The Committee reviewed the assumptions and methodology behind the models used to determine effective lives and EIR adjustments and concluded that these were satisfactory.
- Going concern: the Society adopts the going concern basis in preparing the annual accounts as reported on page 14 of the Directors’ Report. The Committee agreed that this judgement was appropriate, taking into account the longer-term viability of the Society, and advised the Board accordingly.

Internal Audit
The Committee monitors the activities and effectiveness of internal audit and agrees the annual internal audit plan and fee. At each meeting the internal auditor presents a summary audit status tracking report and a report on the progress of each individual audit performed in the quarter. The Committee has regard to the level of internal audit resources applied, the implications of any internal audit recommendations and the tracking of outstanding actions.

During the year, the internal audit plan covered the following areas:

- Regulatory Reporting
- Post Implementation Review of Online Broker Portal
- Internal Capital Adequacy Assessment Process (ICAAP)
- Information Security and Operational Resilience
- Mortgage Underwriting and Processing
- Cyber Risk Management
- Risk Management Framework

In common with other building societies of its size and structure, the Society outsources its internal audit function to an independent firm of accountants with appropriate specialist expertise. RSM Risk Assurance Services LLP has held this position for a number of years.

System of Internal Control
The Society has in place internal controls and a risk management framework to safeguard the members' and the Society's assets. The Committee is responsible for reviewing the effectiveness and appropriateness of these processes. The Committee reviewed the internal control framework through regular reporting from the Senior Management Team, the internal audit function and the external auditor. The work of the Committee gave assurance to the Society's Board that there were no material breaches of control or regulatory standards during the year.

External Audit
The Committee evaluated and approved the scope and content of the external audit plan, and approved the level of fees. The Committee monitored the effectiveness of the external auditor and the progress of external audit work against plan, with regard to the resources, competency and independence of the audit team. This review concluded that the work performed by BDO LLP was independent, objective and effective. BDO LLP has held the position of the Society's external auditors since 10th July 2019.

Any proposal to employ external auditors to perform non-audit functions is reviewed by the Committee with regard to audit objectivity and independence and is subject to the Society's Non-Audit Services Policy.

The Committee meets privately with the external auditor at least once a year without the Executive being present. At this meeting the external auditor can openly discuss the perceived risks to the Society, the transparency, openness and proficiency of management, whether there has been any restriction of scope and confirm audit independence.

Audit Committee Effectiveness
The Committee conducts an annual review of its own effectiveness and performance against its terms of reference. Accordingly, the Committee concluded that it operated effectively and in accordance with its terms of reference.

J STABLES
Chair of the Audit Committee

20th May 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS, THE ANNUAL BUSINESS STATEMENT AND THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

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

The Building Societies Act 1986 ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

The Directors consider the annual report and accounts to be fair balanced and understandable and provides the information necessary for members to assess the Society's position, performance, business model and strategy.

In preparing annual accounts, the Directors are required to:

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

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTING RECORDS AND INTERNAL CONTROL

The Directors are responsible for ensuring that the Society:

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

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

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

M J RICE
Chairman

20th May 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EARL SHILTON BUILDING SOCIETY

Opinion on the financial statements

In our opinion, the financial statements:

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

We have audited the financial statements of Earl Shilton Building Society (the 'Society') for the year ended 31 March 2021 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, the Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the Audit Committee, we were re-appointed by the Members of the Society on 8 July 2020 to audit the financial statements for the year ending 31 March 2021. The period of total uninterrupted engagement including retenders and reappointments is 2 years, covering the years ending 31 March 2020 to 31 March 2021. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

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

- Assessing the directors assessment of Going Concern including supporting financial forecasts through review of key ratios such as profitability, net assets, capital and liquidity for significant deterioration, indicating issues relating to going concern
- Reviewing the Internal Capital Adequacy Assessment Process document (ICAAP), Internal Liquidity Adequacy Assessment Process document (ILAAP) and regulatory capital and liquidity requirements
- Challenging management's assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress test scenarios
- Assessing how management have factored in key external factors expected to impact the Society such as the Covid-19 pandemic & BREXIT, checking these had been appropriately considered as part of management's going concern assessment.

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

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

Overview

		2021	2020
Key audit matters	Revenue Recognition	✓	✓
	Impairment losses on loans and advances	✓	✓
Materiality	£77,000 (2020: £58,000) based on 0.65% (2020: 0.50%) of Tier 1 capital		

Overview

An overview of the scope of our audit

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

Key audit matters

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

Key Audit Matter		**How we addressed the key audit matter in our audit**
Revenue Recognition The Society's accounting policies are detailed on page 38 with detail about judgements in applying Accounting policies and critical accounting estimates on page 40 & 41	The Society's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of FRS 102. The net EIR liability of the Society is £35,027 (2020: £31,000). This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Society's loans and advances within these models. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue. The key assumption in the EIR models is the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows. Revenue Recognition was identified as a key audit matter because it is a complex area which requires significant judgement, and it is considered to be an area which had a large effect on our audit strategy and allocation of resources in planning and completing our audit of the Society.	We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of FRS 102. This included assessment of the types of fees and costs being spread within the effective interest rate models. We assessed the completeness and accuracy of data and key model inputs feeding into the EIR model by agreeing samples to the system or source documents. We verified the arithmetic accuracy of the models through re-calculation. We critically assessed and challenged management on the appropriateness of the EIR, such as the behavioural life of loan portfolios with reference to the Society's own and external data. We tested the loan behavioural life run-off curves used by management for the EIR calculations based on the Society's historical data. We assessed and challenged management's expected repayment profile assumptions, against recent historical experience of loan lives, and whether any adjustments to recent historical redemption profiles used in the EIR model were necessary to reflect expected changes in future redemption profiles. We utilised data analytics to perform a full recalculation of the contractual interest recognised during the financial year on loans advanced. Key observations: We have not identified any indicators that the assumptions included in the EIR models are unreasonable in consideration of the Society's mortgage portfolio, historic behaviours and current economic and market conditions.

Key Audit Matter		**How we addressed the key audit matter in our audit**
Impairment losses on loans and advances The Society's accounting policies are detailed on page 38 with detail about judgements in applying Accounting policies and critical accounting estimates on page 40 & 41. As disclosed in Note 12, the Society holds £395,154 of impairment provision at year end (2020: £357,585).	The Society accounts for the impairment of loans and advances to customers using an incurred loss model. In accordance with the recognition and measurement criteria of FRS 102, management has calculated two types of provisions. (i) A specific provision is calculated for loans where there is an observable loss event. (ii) A collective provision is recognised for loans which are impaired as at the year-end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans, being impairment that has been incurred but not reported. Estimating an appropriate loan loss provision requires significant judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property have the most significant impact on the provision. Impairment losses on loans and advances is therefore also a fraud risk area due to the judgments and complexity.	Our testing on specific provisions included selecting a sample of loans and checking the collateral valuation to the external valuations obtained by management, including re-calculations of indexed property valuations and verifying the credentials of management's expert. We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold. We also tested the population of loans to gain comfort that all loans that meet the criteria for a specific provision have been included for specific provisioning. We tested the appropriateness of the key assumptions within this model in relation to the collective provision, such as impairment triggers, indexed property valuations, and probability of defaults through a combination of, independent recalculations and agreeing inputs to external data sources where applicable, and taking into account current market conditions which pertain to the mortgage book. We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. We performed sensitivity analysis on the discount applied to the indexed collateral valuations and to the level of segmentation in the model. We verified the arithmetic accuracy of the models through re-calculation. We reconciled the loan balances in the models to test whether the relevant loan populations were being considered for impairment. Key observations: We noted no material exceptions through performing these procedures.

Our application of materiality

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

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

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

	2021	2020
Materiality	£77,000	£58,000
Basis for determining materiality	0.65% of Tier 1 capital	0.50% of Tier 1 Capital
Rationale for the benchmark applied	We determined that Tier 1 capital was the most appropriate benchmark considering the difference in stakeholders. In particular as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.	We determined that Tier 1 capital was the most appropriate benchmark considering the difference in stakeholders. In particular as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits.
Performance materiality	£57,000	£34,000
Basis for determining performance materiality	75% of materiality Higher level of materiality applied. The increased percentage versus prior year was made considering our understanding of the Society, risk assessment and history of any significant issues identified.	60% of materiality. Lower percentage applied in particular considering this was the first year auditing the Society.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £3,850 (2020: £1,160). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

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

We have nothing to report in this regard.

Other Building Societies Act 1986 reporting

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

Annual business statement and directors' report	In our opinion, based on the work undertaken in the course of the audit: • The annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986; • The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given. In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion: • adequate accounting records have not been kept; or • the financial statements are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.

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

In our opinion the information given on page 55 for the financial year ended 31 March 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

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

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

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, internal audit and the audit and risk committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in relation to accounting estimates such as EIR and loan loss provisioning.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

20th May 2021

London, UK

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

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31st March 2021

	Notes	2021 £	2020 £
Interest receivable and similar income	2	3,748,503	4,210,416
Interest payable and similar charges	3	(978,773)	(1,477,913)
Net interest income		2,769,730	2,732,503
Fees and commissions receivable		24,547	25,896
Fees and commissions payable		(26,151)	(27,171)
Total net income		2,768,126	2,731,228
Administrative expenses	4	(2,229,775)	(2,184,298)
Depreciation and amortisation	13, 14	(98,650)	(101,553)
Gain on disposal of tangible fixed assets		45	1,664
Other operating income	21	17,921	6,836
Operating profit before impairment and provisions		457,667	453,877
Impairment charge on loans and advances	12	(37,569)	(64,060)
Movement in provision for FSCS levy		-	4,909
Profit before tax		420,098	394,726
Tax expense	8	(80,412)	(78,454)
Profit for the financial year		339,686	316,272
Retained reserves:			
General reserves at the beginning of the year		11,945,560	11,629,288
General reserves at the end of the year		12,285,246	11,945,560

The notes on pages 38 to 55 form part of these accounts.

Profit for the financial year represents the Society's total comprehensive income for the financial year and is attributable to the members of the Society.

Profit for the financial year arises from continuing operations.

BALANCE SHEET
as at 31st March 2021

	Notes	2021 £	2020 £
ASSETS			
Liquid assets			
Cash in hand		100,637	139,022
Treasury bills	10	1,000,160	2,996,592
Loans and advances to credit institutions	9	29,953,811	26,193,905
Debt securities	10	1,001,719	1,006,647
Total liquid assets		32,056,327	30,336,166
Loans and advances to customers			
Loans fully secured on residential property		114,402,930	109,345,142
Loans fully secured on land		632,572	954,488
Total loans and advances to customers	11	115,035,502	110,299,630
Tangible fixed assets	13	615,869	671,178
Intangible assets	14	2,855	10,770
Prepayments and accrued income		277,592	275,584
Total assets		147,988,145	141,593,328
LIABILITIES			
Shares	16	131,056,781	123,612,743
Amounts owed to credit institutions	17	-	501,315
Amounts owed to other customers	18	4,364,782	5,237,328
Total shares and borrowings		135,421,563	129,351,386
Corporation tax payable	19	75,554	70,624
Accruals and deferred income	20	185,013	191,926
Provisions for liabilities	21	-	17,921
Deferred Tax liability	15	20,769	15,911
Total liabilities		135,702,899	129,647,768
RESERVES			
General reserves		12,285,246	11,945,560
Total liabilities and reserves		147,988,145	141,593,328

The notes on pages 38 to 55 form part of these accounts.
Approved by the Board of Directors on 20th May 2021, and signed on its behalf by:

M J Rice Chairman	P Tilley Chief Executive	S T Wigfull Finance Director

CASH FLOW STATEMENT
for the year ended 31st March 2021

	Notes	2021 £	2020 £
Cash flows from operating activities			
Profit before tax		420,098	394,726
Adjustments for			
Depreciation and amortisation	13, 14	98,650	101,553
Disposal of tangible fixed assets		(45)	(1,664)
Increase in impairment of loans and advances	12	37,569	64,060
Total		556,272	558,675
Changes in operating assets and liabilities			
Decrease / (increase) in prepayments and accrued income		10,038	(38,180)
(Decrease) in accruals and deferred income		(6,913)	(24,803)
(Decrease) in provisions for liabilities		(17,921)	(13,511)
Net (increase) in loans and advances to customers		(4,773,442)	(3,488,633)
Net increase in shares		7,444,038	6,173,707
Net (decrease) in deposits and other borrowings		(1,373,861)	(2,243,492)
Net (increase) / decrease in loans and advances to credit institutions		(250,000)	500,000
Taxation paid		(70,624)	(102,489)
Net cash generated by operating activities		1,517,588	1,321,274
Cash flows from investing activities			
Purchase of debt securities	10	(1,000,200)	(1,000,199)
Sale of debt securities	10	1,000,199	2,003,511
Purchase of treasury bills	10	(2,999,107)	(5,978,953)
Sale of treasury bills	10	4,988,421	4,982,016
Purchase of tangible fixed assets	13	(35,436)	(144,136)
Proceeds from disposal of tangible fixed assets		56	21,482
Purchase of intangible assets	14	-	(2,588)
Net cash generated by/(used in) investing activities		1,953,933	(118,867)
Net increase in cash and cash equivalents		3,471,521	1,202,407
Cash and cash equivalents at the beginning of the year		25,832,927	24,630,520
Cash and cash equivalents at the end of the year		29,304,448	25,832,927
Analysis of the balances of cash and cash equivalents shown in the balance sheet			
Cash in hand		100,637	139,022
Loans and advances to credit institutions repayable within 3 months	9	29,203,811	25,693,905
	23	29,304,448	25,832,927

The notes on pages 38 to 55 form part of these accounts.

1 ACCOUNTING POLICIES

1.1 Basis of preparation

Earl Shilton Building Society ("the Society") has prepared these Society annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in March 2018.

The presentation currency of these annual accounts is sterling. Amounts in the annual accounts have been rounded to the nearest £ unless otherwise stated.

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

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the annual accounts, and estimates with a significant risk of material adjustment in the next year are discussed in note 1.11 below.

Administrative expenses represent the ongoing costs of running the Society and are accounted for on an accruals basis in the Statement of Income and Retained Earnings.

These accounts have been prepared on a going concern basis as the Board have made the judgement that the Society has adequate resources to continue in business for the foreseeable future.

1.2 Measurement convention

The annual accounts are prepared on a going concern basis under the historical cost convention.

1.3 Interest

Interest income and expense presented in the income statement represents interest on financial assets and financial liabilities measured at amortised cost. Interest income and expense are recognised in the Statement of Income and Retained Earnings using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not expected future credit losses. The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

1.4 Fees and commission

Fees and commissions 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 1.3). Such income and expense include loan arrangement fees, introducers' commission, valuation fees and product switching fees.

Other fees and commission income is recognised as the related services are performed, and relates mainly to account servicing fees and sales commission (other than loan introducers' commission).

1.5 Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax occurs due to timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts.

Deferred tax recognised on timing differences between accumulated depreciation and tax allowances for the cost of a fixed asset is reversed if and when all conditions for retaining the tax allowances have been met.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.6 Financial instruments
The Society's financial instruments consist of financial assets, principally liquid assets (cash, treasury bills, loans and advances to credit institutions and debt securities) and loans and advances to customers (mortgages); and financial liabilities, principally shares and borrowings (customer deposits) and loans from credit institutions. All of the Society's financial instruments qualify as basic financial instruments under FRS 102.

Recognition, measurement and derecognition
A basic financial instrument is recognised as a financial asset or financial liability only when the Society becomes a party to the contractual provisions of the instrument, and is measured initially at its transaction price including any transaction costs that are directly attributable to its acquisition or issue. Subsequently, the Society's financial instruments are measured at their amortised cost using the effective interest rate method (see 1.3). Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus, in the case of a financial asset, any reduction for impairment.

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or are settled; or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Society is recognised as a separate asset or liability.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Identification and measurement of impairment
At each reporting date, the Society assesses whether there is objective evidence that its financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All loans and advances are assessed for specific impairment together with any loans or advances where impairment is indicated. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. This includes advances not in arrears but for which the Society has exercised forbearance in the conduct of the account. Loans and advances are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses external data to build a model of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends.

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

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

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

1.8 Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Society assesses at each reporting date whether tangible fixed assets are impaired. Tangible fixed assets are depreciated over their estimated useful lives as follows:

Freehold office premises (excluding land)	-	1% per annum on cost
Improvements to office premises	-	$6^2/_3$% per annum on cost
Office and computer equipment	-	20% per annum on cost
Motor vehicles	-	25% on reducing balance

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

1.9 Intangible assets
The Society's intangible assets comprise purchased computer software. Computer software is stated at cost less accumulated amortisation and accumulated impairment losses, and amortised over its estimated useful life at $33^1/_3$% per annum on cost. Useful lives for computer software are determined by an assessment of the period over which the software is expected to continue to be used by the Society before it becomes obsolete or is replaced. The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.10 Pension contributions
The Society's contributions to the defined contribution group personal pension plan are recognised as an expense in the Statement of Income and Retained Earnings in the periods during which services are rendered by employees who are members of the plan. See note 7 for further details of the plan.

1.11 Judgements and key sources of estimation uncertainty
The Society has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas where judgements and estimates have been made in preparing these accounts are as follows:

Impairment provisions for loans and advances to customers
The determination of impairment provisions for mortgages is inherently uncertain and requires significant judgement and estimation. The Society uses historical trend information and external benchmarks for similar types of loan and customer profiles to indicate the probability of default, timing of recoveries and the amount of loss incurred, but has to judge whether these are reflective of current and future economic conditions and make assumptions about the future developments in, for example, interest rates, house prices and the length of time required to sell a property in possession. With consideration to reports and commentaries from external agencies, including the Bank of England, changes have been made to the assumptions which materially affect the level of provision recognised. The most critical of these assumptions are the level of discount applied to the valuation of properties and the probability of borrower default. The Society's assumptions are based upon a deterioration in credit risk outcomes compared with recent historical experience. This is primarily represented by a decrease in expected recoveries on impaired accounts caused by forecast decreases in house prices during 2021/22 due to a decline in the economic environment. The Directors believe these assumptions address the risk of a possible recession caused by the Covid-19 pandemic and the size of the provision will be affected if these assumptions were changed. If the discount were reduced by 10% the impairment provision would reduce by £178,000 (2020: £157,000) and if the probability of borrower default percentage was increased by 1% the impairment provision would increase by £54,000 (2020: £51,000).

Effective interest rate applied to loans and advances to customers
Amounts related to the effective interest rate (EIR) included within the income statement is £66,000 (2020: £23,000) with an EIR liability included in the balance sheet of £35,000 (2020: asset of £31,000). The effective interest rate will affect the carrying values of loans and receivables. A critical aspect of the application of the effective interest rate ("EIR") method to the measurement of mortgages and the recognition of mortgage interest and fees is the

determination of the expected life of the Society's mortgages. This determines the period over which customers may be paying various differentiated rates and fee income is spread. Estimates of expected life are based on the Society's past experience of similar products, and are reviewed regularly to ensure that they remain appropriate. Any changes to the average life will create an adjustment to the loan balance in the balance sheet with a corresponding adjustment to interest receivable in the Statement of Income and Retained Earnings. A 10% increase in the average life profile would result in a decrease in the value of loans and advances to customers on the balance sheet of approximately £4,000 (2021: £5,000).

Going Concern
The Board have made the judgement that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual accounts. In making this assessment the Board considered forecasts assessing the Society's capital levels, funding and liquidity positions under stressed but plausible conditions, including a severe economic downturn arising from the Covid-19 pandemic. Further details of the principle risks and uncertainties related to this assessment are contained within the Directors Report on pages 12, 13 and 14.

	2021 £	2020 £
2 INTEREST RECEIVABLE AND SIMILAR INCOME		
On loans fully secured on residential property	3,689,691	3,970,224
On other loans fully secured on land	21,121	40,604
On debt securities	10,846	11,146
On other liquid assets	26,845	188,442
	3,748,503	4,210,416

The total amount of interest receivable and similar income shown for debt securities relates to income from fixed income securities.

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £	2020 £
On shares held by individuals	938,281	1,441,870
On deposits and other borrowings	40,492	36,043
	978,773	1,477,913

4 ADMINISTRATIVE EXPENSES

	2021 £	2020 £
Staff costs:		
Wages and salaries	962,158	924,717
Social security costs	96,775	88,983
Other pension costs relating to a defined contribution scheme (see note 7)	94,156	88,856
	1,153,089	1,102,556
Auditor's remuneration (excluding VAT)		
- audit of financial statements	43,200	40,000
Other recurring expenses	1,033,486	1,041,742
	2,229,775	2,184,298

5 EMPLOYEES

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

	Full-Time		Part-Time	
	2021	2020	2021	2020
- Head office	18	18	8	6
- Barwell	1	-	8	8
	19	18	16	14

6 DIRECTORS' EMOLUMENTS

Emoluments of the Directors of the Society are detailed below:-

2021

Non-Executive Directors	Fees £	Salary £	Benefits £	Pension scheme contributions £	Total £
M J Rice (Chairman)	26,562	-	-	-	26,562
P E Beardsmore (Vice–Chairman)	12,598	-	-	-	12,598
I M Dale	18,897	-	-	-	18,897
D J Hickman	7,909	-	-	-	7,909
S A Lawrence	7,822	-	-	-	7,822
L J Mackie	20,836	-	-	-	20,836
A C Robinson	6,664	-	-	-	6,664
J Stables	22,432	-	-	-	22,432
Executive Directors					
P Tilley (Chief Executive & Secretary)*	-	112,315	17,119	10,846	140,280
S T Wigfull (Finance Director)	-	73,708	11,126	7,195	92,029
	123,720	186,023	28,245	18,041	356,029

2020

Non-Executive Directors	Fees £	Salary £	Benefits £	Pension scheme contributions £	Total £
M J Rice (Chairman)	25,852	-	-	-	25,852
P E Beardsmore (Vice–Chairman)	18,392	-	-	-	18,392
I M Dale	18,392	-	-	-	18,392
S A Lawrence	13,094	-	-	-	13,094
L J Mackie	18,183	-	-	-	18,183
A J McNair	7,170	-	-	-	7,170
J Stables	21,833	-	-	-	21,833
Executive Directors					
N D Adams (Deputy Chief Executive & Finance Director)**	-	28,330	4,300	4,139	36,769
P Tilley (Chief Executive & Secretary)	-	106,665	16,709	10,506	133,880
S T Wigfull (Finance Director)***	-	68,964	7,771	6,797	83,532
Total 2020	122,916	203,959	28,780	21,442	377,097

*P Tilley sold part of his 2020/21 annual leave entitlement and payment for this is included in the salary figure.
**N D Adams commenced a four-day week on 1 August 2018 and retired from the Society on 31 October 2019.
***S T Wigfull was appointed as Finance Director on 1 August 2019, included in these figures are amounts related to his previous role as Financial Controller.
Included in the salary of Executive Directors are incentive payments amounting in 2021 to 1.75% of base salary plus £500 (2020: 1.5%). The reason for the £500 payment in 2021 is detailed in the Directors' Remuneration Report. The benefits shown above relate to car and health care.

The Society's Directors are considered to be its key management personnel as defined by FRS 102, as they have authority and responsibility for planning, directing and controlling the activities of the Society, directly or indirectly. The total compensation of key management personnel in the year was £388,295 (2020: £410,573), comprising emoluments as shown above and employer's National Insurance contributions.

DIRECTORS' LOANS AND TRANSACTIONS
The aggregate amount outstanding on loans to Directors and connected persons as described in Section 65 of the Building Societies Act 1986 was £nil (2020: £nil). The aggregate amount outstanding on deposits and shares held by Directors and connected persons was £84,543 for eight Directors and connected persons (2020: £85,964, eight Directors and connected persons). A register is maintained at the Society's head office under Section 68 of the Building Societies Act 1986, containing details of loans and transactions with Directors and connected persons. This register is available for inspection by members at the Society's Head Office up to 14th July 2021 and at the AGM. The Society has not entered into transactions with related parties except for those noted above.

7 PENSION SCHEME

The Society operates a defined contribution scheme for staff which is self-administered, with the assets being held separately from those of the Society in a group personal pension plan. Contributions shown represent the sum payable in respect of the accounting period. No extra contributions were provided by the Society during the year. The group personal pension plan is currently provided by ReAssure Limited. There were no outstanding contributions at the end of the year (2020: none).

8 TAX EXPENSE

	2021 £	2020 £
The tax expense for the year comprises:-		
Profit per accounts	420,098	394,726
Expected UK Corporation tax at 19% (2020: 19%)	79,819	74,998
The impact of fixed asset treatment	8,367	6,913
The impact of provisions	(12,645)	(11,402)
Other impacts	13	115
UK Corporation tax current charge	75,554	70,624
Adjustments in respect of prior periods	-	-
Total current tax expense	75,554	70,624
Origination and reversal of timing differences	4,858	6,879
Effect of tax rate change on opening balance	-	951
Total deferred tax expense (note 15)	4,858	7,830
Total tax expense	80,412	78,454
Factors affecting the tax expense for the year:		
Profit for the year before taxation	420,098	394,726
Profit on ordinary activities multiplied by standard rate of UK tax of 19% (2020: 19%)	79,819	74,998
Effects of:		
Fixed asset differences	3,987	4,552
Expenses not deductible for tax purposes	12	115
Deferred tax not recognised	(3,406)	(1,576)
Adjustments to tax expense in respect of previous periods	-	-
Effect of rate changes on deferred tax	-	365
Total tax expense	80,412	78,454

The impact of fixed asset treatment includes depreciation and capital allowances adjustments. The impact of provisions is mainly due to a change in the tax treatment of the collective impairment provision in 2016. This is adjusted for over 10 years, hence it is expected to reduce the tax charge until the year ended 31st March 2025.

9 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows :-

	2021 £	2020 £
Accrued interest	1,552	2,134
Repayable on demand	29,202,259	25,691,771
In more than 3 months but not more than 1 year	750,000	500,000
	29,953,811	26,193,905
Total included within cash and cash equivalents	29,203,811	25,693,905

10 DEBT SECURITIES AND TREASURY BILLS

	2021 £	2020 £
Debt securities	1,001,719	1,006,647
Treasury bills	1,000,160	2,996,592
	2,001,879	4,003,239

Debt securities and treasury bills have remaining maturities as follows:-

	2021	2020
Accrued interest	1,130	13,177
In not more than 1 year	2,000,749	3,990,062
	2,001,879	4,003,239

	2021	2020
Transferable debt securities comprise:-		
Listed on a recognised investment exchange	-	-
Unlisted	1,001,719	1,006,647
	1,001,719	1,006,647
Market value of listed transferable debt securities	-	-

Movements during the year of debt securities and treasury bills are as follows:-

	£
At the beginning of the year	4,003,239
Additions	3,999,307
Disposals and maturities	(5,988,620)
Movement in amortisation and accrued interest	(12,047)
At the end of the year	2,001,879

11 LOANS AND ADVANCES TO CUSTOMERS

The remaining contractual maturity of loans and advances to customers from the date of the balance sheet is as follows:-

	2021 £	2020 £
Repayable on demand	11,340	5,479
In not more than 3 months	1,034,096	846,904
In more than 3 months but not more than 1 year	3,849,761	3,261,041
In more than 1 year but not more than 5 years	23,640,394	20,824,031
In more than 5 years	86,895,065	85,719,760
	115,430,656	110,657,215
Less total impairment provision (note 12)	(395,154)	(357,585)
	115,035,502	110,299,630

This may not reflect the actual pattern of repayments since many loans and advances are repaid early. The sensitivity of this balance to a change in the average life profile is shown in note 1.11.

12 IMPAIRMENT PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

	Loans fully secured on residential property	Loans fully secured on land	Total
	£	£	£
At 31st March 2020			
Collective provision	288,394	5,481	293,875
Individual provision	63,710	-	63,710
	352,104	5,481	357,585
Charge / (Credit) for the year			
Collective provision	21,763	(5,178)	16,585
Individual provision	20,984	-	20,984
	42,747	(5,178)	37,569
At 31st March 2021			
Collective provision	310,157	303	310,460
Individual provision	84,694	-	84,694
	394,851	303	395,154
At 31st March 2019			
Collective provision	267,967	13,559	281,526
Individual provision	11,999	-	11,999
	279,966	13,559	293,525
Charge / (Credit) for the year			
Collective provision	20,427	(8,078)	12,349
Individual provision	51,711	-	51,711
	72,138	(8,078)	64,060
At 31st March 2020	288,394	5,481	293,875
Collective provision	63,710	-	63,710
Individual provision			
	352,104	5,481	357,585

The sensitivity of this balance to a change in the discount or default percentage is shown in note 1.11.

13 TANGIBLE FIXED ASSETS

	Freehold office premises £	Improvements to office premises £	Office and computer equipment £	Motor Vehicles £	Total £
Cost					
At 1st April 2020	228,427	520,994	290,004	116,394	1,155,819
Additions	-	-	35,436	-	35,436
Disposals	-	-	(17,595)	-	(17,595)
At 31st March 2021	228,427	520,994	307,845	116,394	1,173,660
Depreciation					
At 1st April 2020	(55,003)	(189,560)	(208,855)	(31,233)	(484,651)
Charged in year	(2,088)	(34,663)	(32,694)	(21,290)	(90,735)
On disposals in year	-	-	17,595	-	17,595
At 31st March 2021	(57,091)	(224,223)	(223,954)	(52,523)	(557,791)
Net book value					
31st March 2021	171,336	296,771	83,891	63,871	615,869
31st March 2020	173,424	331,434	81,159	85,161	671,178

The net book value of land and buildings occupied for the Society's own use is £171,336 (2020: £173,424) comprising freehold office premises as shown above.

14 INTANGIBLE ASSETS

	Computer software £
Cost	
At 1st April 2020	97,421
Additions	-
Disposals	-
At 31st March 2021	97,421
Amortisation	
At 1st April 2020	(86,651)
Charged in year	(7,915)
On disposals in year	-
At 31st March 2021	(94,566)
Net book value	
31st March 2021	2,855
31st March 2020	10,770

No individual intangible asset is considered to be material to the Society's accounts.

15 DEFERRED TAX LIABILITY

	2021	2020
	£	£
Deferred tax arising from:		
- accelerated capital allowances	57,728	62,108
- short-term timing differences	(36,959)	(46,197)
	20,769	15,911

Deferred tax asset / (liability) movements in the year:		
At 1st April 2020	15,911	8,081
Deferred tax expense for the year	4,858	7,830
At 31st March 2021	20,769	15,911

On 3 March 2021 the government announced its intention to increase the corporation tax rate from 1 April 2023. This rate will taper from 19% for businesses with profits of less than £50,000 to 25% for businesses with profits over £250,000. This is anticipated to be substantively enacted once the Finance Bill 2021 passes the House of Commons. At 31 March 2021 however, the rate substantively enacted remained at 19% and therefore deferred tax has been calculated at a rate of 19%.

Accelerated capital allowances arise because of differences between fixed asset depreciation and capital allowances. Short term timing differences are mainly due to a change in the tax treatment of the collective impairment provision in 2016 and is expected to reverse by 2025.

16 SHARES

	2021	2020
	£	£
Held by individuals	131,056,781	123,612,743

Shares are repayable from the date of the balance sheet in the ordinary course of business as follows:-		
Accrued interest	425,158	671,531
On demand	129,825,852	122,250,065
In not more than 3 months	104,176	354,324
In more than 3 months but not more than 1 year	288,904	223,636
In more than 1 year but not more than 5 years	412,692	113,187
	131,056,781	123,612,743

17 AMOUNTS OWED TO CREDIT INSTITUTIONS

	2021	2020
	£	£
Accrued interest	-	1,315
Repayable with agreed maturity dates or periods of notice:		
- In not more than 3 months	-	500,000
	-	501,315

	2021 £	2020 £
18 AMOUNTS OWED TO OTHER CUSTOMERS		
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:-		
Accrued interest	619	2,811
On demand	4,364,163	5,234,517
	4,364,782	5,237,328

19 CORPORATION TAX PAYABLE	2021 £	2020 £
Corporation tax falling due within one year	75,554	70,624

20 ACCRUALS AND DEFERRED INCOME	2021 £	2020 £
Amounts falling due within one year:		
Accruals	185,013	191,926

21 PROVISIONS FOR LIABILITIES

	Regulatory compensation £
At 1st April 2020	17,921
(Paid) / Received in year	-
Provisions released	(17,921)
At 31st March 2021	-

Regulatory Compensation

This provision related to liabilities arising from the sale of Mortgage Payment Protection Insurance to mortgage customers. During the year the provision was released in full and it is now not expected that any liability for this reason will occur in the future.

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments, mainly in the form of mortgage and savings products, and also invests liquid asset balances in wholesale financial instruments. As a result of these operations, the Society is exposed to a variety of risks, the most significant being liquidity risk, credit risk and market risk which are described later in this note.

The Society has a formal structure for managing risk, including established risk limits, reporting lines and other control procedures. This structure is reviewed regularly by the Board's Assets and Liabilities Committee, which is responsible for managing and controlling the balance sheet exposures.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis at amortised. The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category **Year ended 31st March 2021**	Financial assets: debt instruments measured at amortised cost	Financial liabilities measured at amortised cost	Other financial instruments	Total
	£	£	£	£
Financial assets				
Cash in hand	-	-	100,637	100,637
Debt securities and treasury bills	2,001,879	-	-	2,001,879
Loans and advances to credit institutions	29,953,811	-	-	29,953,811
Loans and advances to customers	115,035,502	-	-	115,035,502
Total financial assets	146,991,192	-	100,637	147,091,829
Non-financial assets				896,316
Total assets				147,988,145
Financial liabilities				
Shares	-	131,056,781	-	131,056,781
Amounts owed to credit institutions	-	-	-	-
Amounts owed to other customers	-	4,364,782	-	4,364,782
Other liabilities	-	185,013	-	185,013
Total financial liabilities	-	135,606,576	-	135,606,576
Non-financial liabilities and reserves				12,381,569
Total liabilities and reserves				147,988,145

Year ended 31st March 2020				
	£	£	£	£
Financial assets				
Cash in hand	-	-	139,022	139,022
Debt securities and treasury bills	4,003,238	-	-	4,003,238
Loans and advances to credit institutions	26,193,906	-	-	26,193,906
Loans and advances to customers	110,299,630	-	-	110,299,630
Investments	-	-	-	-
Total financial assets	140,496,774	-	139,022	140,635,796
Non-financial assets				957,532
Total assets				141,593,328
Financial liabilities				
Shares	-	123,612,743	-	123,612,743
Amounts owed to credit institutions	-	501,315	-	501,315
Amounts owed to other customers	-	5,237,328	-	5,237,328
Total financial liabilities	-	129,351,386	-	129,351,386
Non-financial liabilities and reserves				12,241,942
Total liabilities and reserves				141,593,328

Liquidity Risk

The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Society and to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets and through management control of the growth of the business. A significant proportion of the Society's liquidity is held in call accounts or in the form of debt securities and treasury bills, which are capable of being sold at short notice to meet unexpected adverse cash flows. The Society's ability to meet such adverse cash flows is measured by stress testing, the results being reviewed by the Board's Assets and Liabilities Committee.

Maturity analysis for financial assets and financial liabilities
The tables below set out the remaining contractual maturities of the Society's financial assets and financial liabilities. In practice, contractual maturities are not 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.

Year ended 31st March 2021	On demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
	£	£	£	£	£	£
Financial assets						
Cash in hand	100,637	-	-	-	-	100,637
Debt securities and treasury bills	-	1,000,160	1,001,719	-	-	2,001,879
Loans and advances to credit institutions	29,203,274	-	750,537	-	-	29,953,811
Loans and advances to customers	11,302	1,030,557	3,836,582	23,559,466	86,597,595	115,035,502
Total financial assets	29,315,213	2,030,717	5,588,838	23,559,466	86,597,595	147,091,829
Financial liabilities						
Shares	130,248,388	104,515	289,844	414,035	-	131,056,781
Amounts owed to credit institutions	-	-	-	-	-	-
Amounts owed to other customers	4,364,782	-	-	-	-	4,364,782
Other liabilities	77,435	64,227	43,351	-	-	185,013
Total financial liabilities	134,690,604	168,742	333,195	414,035	-	135,606,576
Year ended 31st March 2020						
Financial assets						
Cash in hand	139,022	-	-	-	-	139,022
Debt securities and treasury bills	-	1,998,396	2,004,843	-	-	4,003,239
Loans and advances to credit institutions	25,692,492	-	501,414	-	-	26,193,905
Loans and advances to customers	5,462	844,166	3,250,503	20,756,739	85,442,759	110,299,630
Total financial assets	25,836,976	2,842,562	5,756,760	20,756,739	85,442,759	140,635,796
Financial liabilities						
Shares	122,917,820	356,260	224,858	113,805	-	123,612,743
Amounts owed to credit institutions	-	501,315	-	-	-	501,315
Amounts owed to other customers	5,237,328	-	-	-	-	5,237,328
Total financial liabilities	128,155,148	857,575	224,858	113,805	-	129,351,386

The tables below set out a 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 balance sheet date.

Year ended 31st March 2021	On demand	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	Total
	£	£	£	£	£
Financial liabilities					
Shares	130,248,387	106,198	294,262	422,450	131,071,297
Amounts owed to credit institutions	-	-	-	-	-
Amounts owed to other customers	4,364,782	-	-	-	4,364,782
Other liabilities	77,435	64,227	43,351	-	185,013
Total financial liabilities	134,690,604	170,425	337,613	422,450	135,621,092

Year ended 31st March 2020					
	£	£	£	£	£
Financial liabilities					
Shares	122,917,820	357,488	226,525	117,046	123,618,879
Amounts owed to credit institutions	-	501,315	-	-	501,315
Amounts owed to other customers	5,237,328	-	-	-	5,237,328
Total financial liabilities	128,155,148	858,803	226,525	117,046	129,357,522

Credit Risk

The Society's credit risk arises from its portfolio of loans and advances to customers and from potential losses on loans and advances to credit institutions that could result from the failure of loan and treasury counterparties to observe the terms of the contract entered into.

All loan applications are assessed with reference to the Society's lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. Appropriate credit limits have been established by the Board for individual counterparties and sectors and the Assets & Liabilities Committee ensures that these limits are adhered to.

Credit risk in respect of treasury counterparties is assessed using credit ratings provided by a recognised credit rating agency. Regular monitoring of all treasury counterparties may result in their removal from the list of approved counterparties if credit ratings do not reflect the Board's view of credit risk.

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

	2021	2020
	£	£
Cash in hand	100,637	139,022
Debt securities and treasury bills	2,001,879	4,003,239
Loans and advances to credit institutions	29,953,811	26,193,905
Loans and advances to customers	115,035,502	110,299,630
Total balance sheet exposure	147,091,829	140,635,796
Off balance sheet exposure – loan commitments	9,587,822	4,288,466
	156,679,651	144,924,262

Credit quality analysis of counterparties
The table below sets out information about the exposure the Society has to counterparties for debt securities, treasury bills and loans and advances to credit institutions. Amounts held with financial institutions are analysed by their Fitch credit rating where appropriate.

	2021 £	2020 £
Bank of England	25,688,456	22,116,522
UK Government securities	1,000,160	2,996,592
Financial institutions by credit rating:		
- AAA to AA-	-	901,603
- A+ to A-	4,516,537	3,681,013
- BBB+ to BBB-	-	-
- Unrated building societies	750,537	501,414
	31,955,690	30,197,144

Credit quality analysis of loans and advances to customers
The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Society against those assets.

	2021			2020		
	Loans fully secured on residential property £	Loans fully secured on land £	Total £	Loans fully secured on residential property £	Loans fully secured on land £	Total £
Neither past due nor impaired	112,378,112	632,875	113,010,987	107,309,858	959,969	108,269,827
Past due but not impaired						
- Past due up to 3 months	762,178	-	762,178	1,024,805	-	1,024,805
- Past due 3 to 6 months	206,969	-	206,969	326,644	-	326,644
- Past due 6 to 12 months	-	-	-	-	-	-
	969,147	-	969,147	1,351,449	-	1,351,449
Impaired*	1,450,522	-	1,450,522	1,035,938	-	1,035,938
	114,797,781	632,875	115,430,656	109,697,245	959,969	110,657,214
Allowance for impairment						
- Individual	(84,694)	-	(84,694)	(63,710)	-	(63,710)
- Collective	(310,157)	(303)	(310,460)	(288,394)	(5,481)	(293,875)
Total allowance for impairment	(394,851)	(303)	(395,154)	(352,104)	(5,481)	(357,585)

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due), or the property is in possession, or the borrower has significant financial difficulties, or where fraud or negligence has been identified. Further information is given in note 1.6 to the accounts.
* A change in the impairment methodology to include certain mortgage cases in forbearance, led to the increase in impaired loans year-on-year.

Collateral held as security
The Society's loans are fully secured by collateral in the form of a charge on the residential property or land against which the loan is made.

The table below analyses exposures from loans and advances to customers by ranges of indexed loan-to-value ("LTV"). LTV is the ratio of the gross amount of the loan or advance to the value of the collateral. The gross amounts exclude any impairment allowance and adjustments to measure the balances using the effective interest rate method. Indexed LTV is based on the collateral value at the date the loan or advance was originated updated for subsequent changes in house price indices.

	2021 £	2020 £
Indexed LTV ratio		
Less than or equal to 50%	71,233,858	67,630,664
Greater than 50% but less than or equal to 75%	32,745,394	34,502,572
Greater than 75% but less than or equal to 85%	7,216,165	5,181,162
Greater than 85%	4,200,212	3,373,903
	115,395,629	110,688,301

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk. Of these, only interest rate risk is significant for the Society. The Society is not directly exposed to currency risk as it deals only with products in sterling, and its products are only interest orientated so are not exposed to other pricing risks.

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or if earlier, the dates on which the instruments mature. The Society manages this exposure on a regular basis, within the limits set by the Board.

The Society also monitors the sensitivity of its financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in the LIBOR yield curve. If there were a 100bp parallel rise in the LIBOR yield curve, the impact would be a decrease of approximately £17,000 in reserves at 31st March 2021 (2020: approximately £19,000 decrease).

Capital

The Society's policy is to maintain sufficient capital resources in order to support its growth and to be able to continue its lending programme, as well as to exceed the minimum capital requirements set by the Prudential Regulatory Authority ("PRA") in the form of Internal Capital Guidance ("ICG"). The Society's formal Internal Capital Adequacy Assessment Process ("ICAAP") sets out the governance processes that are followed in order to ensure these requirements are met. There were no reported breaches of capital requirements during the year, and there have been no material changes to the way in which the Society manages capital compared to the prior year. The following table sets out the balances that the Society manages as capital in accordance with the PRA's requirements.

	Note	2021 £	2020 £
General reserves		12,285,246	11,945,560
Deductions for intangible assets	14	(2,855)	(10,770)
Total Tier 1 Capital		12,282,391	11,934,790
Collective impairment provision	12	310,460	293,875
Total Tier 2 Capital		310,460	293,875
Total Capital		12,592,851	12,228,665

23 ANALYSIS OF CHANGES IN NET DEBT

	At 31 March 2020 £	Cash flows	At 31 March 2021 £
Cash and cash equivalents			
Cash	139,022	(38,385)	100,637
Cash equivalents	25,693,905	3,509,906	29,203,811
Sub-Total	25,832,927	3,471,521	29,304,448
Borrowings			
Debt due within one year	(501,315)	501,315	-
	25,331,612	3,972,836	29,304,448

24 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Loan Commitments
At the year end, the Society has loan commitments of £9,587,822 in the form of the mortgage approved pipeline (2020: £4,288,466).

25 COUNTRY-BY-COUNTRY REPORTING

The following disclosures have been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, which are set out in Article 89 of the Capital Requirements Directive 4 ("CRD IV"). The objective of the country-by-country reporting ("CBCR") requirements is to provide greater transparency and expanded disclosure in financial statements for the benefit of investors. The CBCR disclosures inform the reader of the source of a firm's income and the location of its operations. The Society's CBCR disclosures for the year ended 31st March 2021 are as follows:

Country-by-country reporting

Name	Earl Shilton Building Society	
Type of entity	Credit institution	
Nature of activity	Financial services	
Location	United Kingdom	
Turnover (i.e. total net income)	£2,769,731	(2020: £2,732,503)
Number of employees	35	(2020: 32)
Profit before tax	£420,098	(2020: £394,853)
Tax expense for the year	£80,412	(2020: £78,454)

Statutory Percentages	Ratio 31st March 2021 %	Statutory Limit %
Proportion of business assets other than in the form of loans fully secured on residential property (the "lending limit")	0.79%	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals (the "funding limit")	3.22%	50.00

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, the Building Societies Act 1986 (as amended by the Building Societies Act 1997) and are based on the Society's balance sheet.

Business assets are the total assets of the Society as shown in the balance sheet plus collective impairment provisions for loans and advances to customers, less tangible fixed assets, intangible assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers, interest accrued not yet payable and effective interest rate adjustment. This is the amount shown in the balance sheet plus collective impairment provisions for loans and advances to customers.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the Society's balance sheet.

The amount of shares held by individuals is shown in note 16 of the notes to the accounts.

Other percentages	Ratio 31st March 2021 %	Ratio 31st March 2020 %
Gross capital as a percentage of shares and borrowings	9.07	9.23
Free capital as a percentage of shares and borrowings	8.84	8.93
Liquid assets as a percentage of shares and borrowings	23.67	23.45
Profit after taxation as a percentage of mean total assets	0.23	0.23
Management expenses as a percentage of mean total assets	1.61	1.66

Notes

a) The above percentages have been prepared from the Society's balance sheet.

b) **Shares and borrowings** represent the total of shares and amounts owed to other customers.

c) **Gross capital** represents the total reserves and is shown as "General reserves" in the balance sheet.

d) **Free capital** represents the total reserves plus collective impairment provisions for loans and advances to customers less tangible fixed assets and intangible assets.

e) **Liquid assets** represent the total of cash in hand, loans and advances to credit institutions, debt securities and treasury bills.

f) **Mean total assets** represent the average of the total assets as shown in the accounts at the beginning and end of the year.

g) **Management expenses** represent the total of administrative expenses and depreciation and amortisation.

INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

Directors Name and Year of Birth	Business Occupation & Other Directorships	Date of Appointment
I M Dale 1957	Chartered Accountant Aspire Housing Ltd; Durata Development Ltd; Incana Sales Ltd; Britannia Pension Trustees Ltd	19.05.2015
D J Hickman 1963	Non-Executive Director Northampton Children Service Trust; Leicestershire Partnership NHS Trust	24.11.2020
L J Mackie 1976	Non-Executive Director None	01.11.2017
A C Robinson 1969	Non-Executive Director Alegra Strategic; Kent Holdco Ltd; Invicta Law Ltd; Edseco Ltd; Cantium Business Solutions; Kent Country Trading Ltd; Commercial Services Kent Ltd; Commercial Services Trading Ltd	19.11.2020
M J Rice 1956	Business Consultant Martin Rice Ltd	01.08.2013
J Stables 1957	Chartered Accountant Lawson West Solicitors	01.11.2017
P Tilley 1966	Chief Executive None	01.01.2012
S T Wigfull 1981	Finance Director None	01.08.2019
Officers		
H A Bonnette	Resources Manager None	
R H Carson	Business Development & Marketing Manager None	
S A Hunt	Regulation & Compliance Manager None	
M R Jones	Information Systems & Estates Manager None	
J E Pettitt	Risk Officer None	
S P Phillips	Financial Controller None	
D Truman	Customer Services Manager None	

Documents may be served on any of the Directors or Officers at the offices of Messrs Thomas Flavell & Sons, Church Walk, Hinckley, Leicestershire LE10 1DN (Attention Mr T Flavell).

Service contracts

The Executive Directors have service contracts with the Society. Paul Tilley's service contract was entered into on the 1st January 2012 and amended on the 1st April 2014. Stephen T Wigfull's service contract was entered into on the 2nd July 2019. Both of these service contracts have notice periods of 6 months by the individual and by the Society. None of the Non-Executive Directors has a service contract with the Society.

Arrangements with Directors

There were no transactions other than those stated in note 6 of the Annual Accounts in which any Director or any person connected with a Director acquired, or arranged to acquire, any non-cash assets from the Society, nor did the Society acquire, or arrange to acquire, any non-cash assets from any Director or any person connected with a Director.

Savings and Mortgages as individual as you

esbs

22 THE HOLLOW, EARL SHILTON, LEICESTER LE9 7NB

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