Report & Accounts
2022

Powering Life

dudley
your Building Society

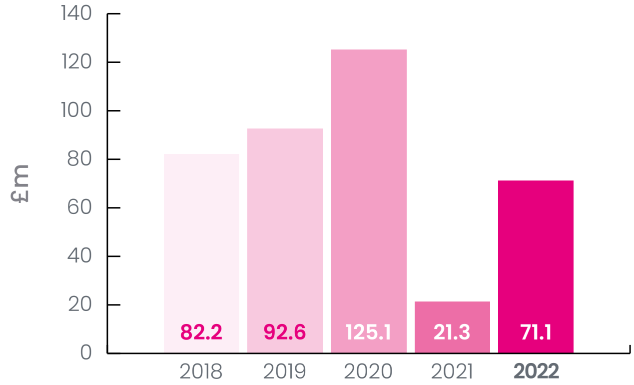
Contents

Performance Highlights

Mortgages

- We returned to growth, once the most severe economic uncertainty relating to the pandemic had eased, lending £71.1 million to help new members and other customers to acquire or remortgage their home
- Mortgage assets grew from £406.2 million to £410.5 million as a consequence
- All of our COVID-19 related payment holidays have now concluded
- 3+ Month arrears cases reduced from 11 to 6 cases

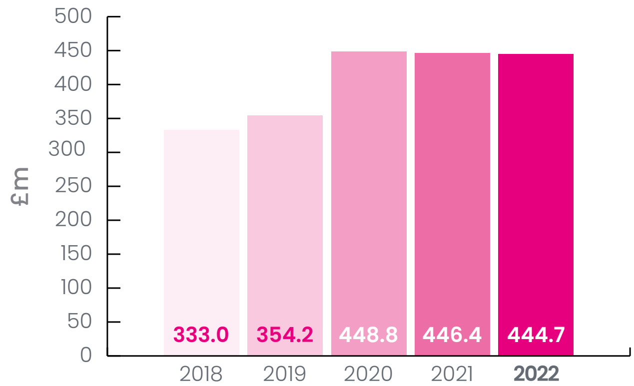
Gross Lending 2018 – 2022



Savings and Funding

- Share balances stayed broadly level year-on-year, despite the Society not needing to attract new funding
- We continued to offer competitive savings rates, with priority given to existing members
- Our holdings of liquidity are significantly higher than both our internal and regulatory requirements

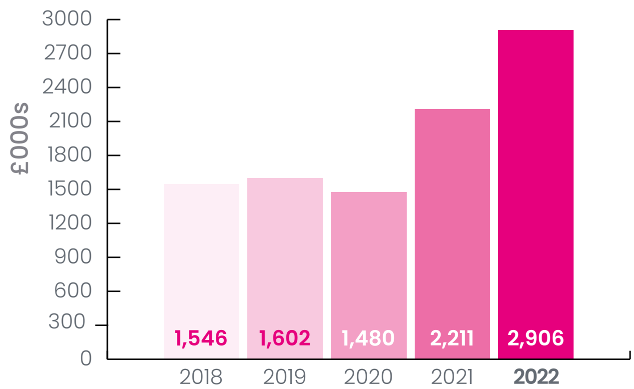
Savings Balances 2018 – 2022



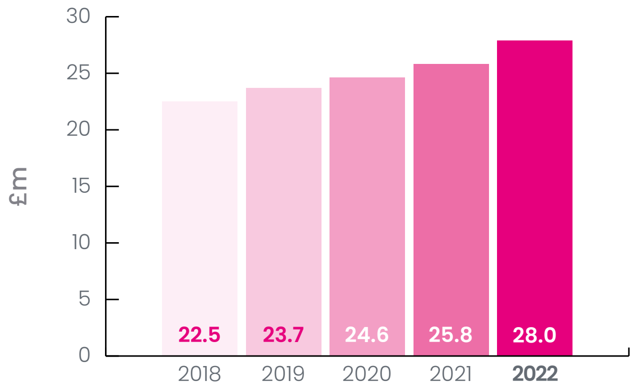
Financial Strength

- Our profit before tax increased from £2.2 million to £2.9 million
- This will be used to grow the business, maintain fair and competitive pricing and invest in services and our community
- As a result, our capital position has also improved

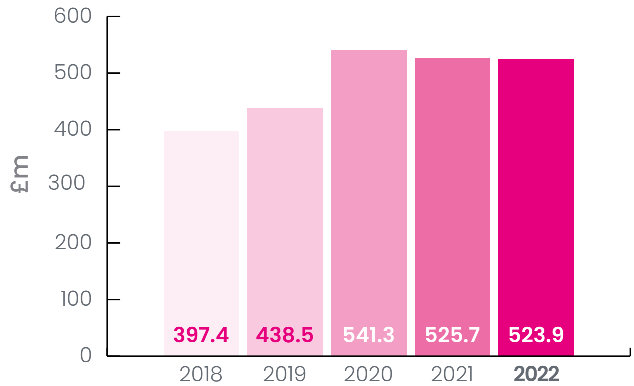
Profit Before Tax 2018 – 2022

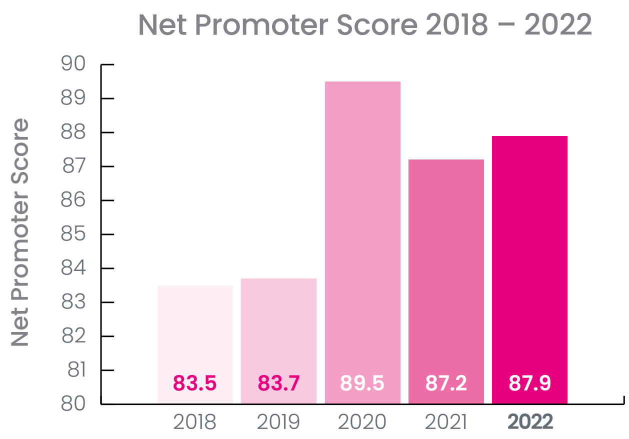


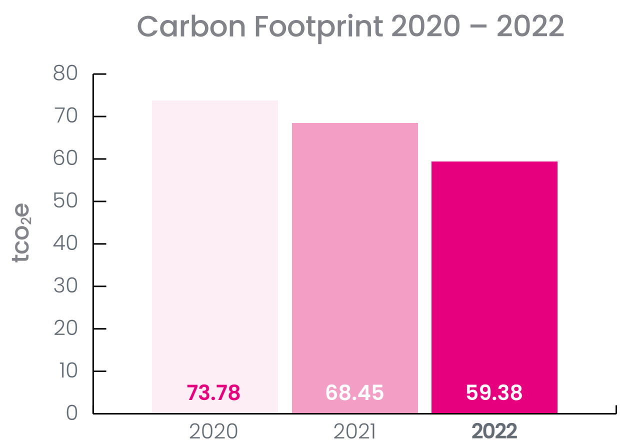
Capital (£) 2018 – 2022



Total Assets 2018 – 2022







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Finance Director
Stephen Heeley

Interim Commercial Director
Kieron Blackburn

Society Secretary
Claire Hyde

Chairman's Statement

After two years of not being able to hold face-to-face Annual General Meetings, I am delighted to be able to report to you here that there is a very real expectation that I will be able to address you in person at Himley Hall in July.

Once again, the last year has delivered plenty of challenges in the form of further Coronavirus restrictions and the impact the pandemic, as well as other factors, has had on our economy. As we are now writing the postscripts to what has been a particularly difficult time for many, we are seeing the cost-of-living increase at a speed not seen in this country for many decades and with a geopolitical instability that will only put further pressure on UK consumers.

But I wouldn't want my report to members to appear to be gloomy – far from it! Your Society has weathered the many storms that have arrived, and it continues to deliver what we set out to do – to serve you, our members. In fact, the last year has been very successful in many respects.

We spent time during the year, as a Board, reflecting on our strategy and ensuring that we continue to deliver in line with our key purpose: to help people to purchase their own homes. The Strategic Report that follows later sets out more details of our strategy, our commitments to our members and the ways in which we deliver value to you. As an organisation that grew from a desire within local communities to help each other, the Board felt strongly that social responsibility and community focus should form a stronger part of our strategy, and more emphasis has been added here. I'm delighted to say that this includes a commitment to set aside 2% of our profit after tax for this and following years to community activities in the Black Country area.

As we started the period, we had just introduced our new Online Service for members, to widen choice and respond to the increasing demand for a digital offering. To date we have had over 3,000 registrations for the service, a clear indication that members value this important facility. In April 2021, we also launched our redeveloped website to improve our service, which has allowed us to provide a wealth of additional guidance to members. However, the development of these digital channels does not mean that we are abandoning our more traditional ways of transacting with members. We're not. If anything, what the last two years have reminded us, is the value of branches for members and the importance of you having access to our people, be that face-to-face or by telephone.

In reflecting on the last couple of years it's perhaps worth me stressing that we have managed to keep all services operating as often as it has been possible. Occasional branch closures have been necessary when we have had to deal with Coronavirus related issues, and I hope that we have been able to communicate effectively when we have had to announce changes rapidly.

I have an unquestionable belief that our members come first, and one of our priorities at Dudley is the member experience we are able to give. This encompasses the range of products we offer, the service received and the ease of doing business with us. Gathering feedback can be difficult; I'm sure that, if you're like me, the constant requests to 'tell us how we did' can be tiresome, so when feedback is given, the asker is duty-bound to take it seriously. We collate all feedback through a third party, and I'm delighted that for the most part, the comments made tell us that we are meeting our objective to provide members with an excellent service. Of course, feedback isn't always positive but when it isn't, I can assure members that it is taken seriously. One piece of feedback we were receiving frequently was the request to provide a will-writing service. We are happy to say that this is now part of our service offering.

Earlier, I touched on the increases in the costs-of-living we are currently experiencing. One of the reactions has been that the Bank of England has announced interest rate increases and is also signalling possible further interest rate rises. Our response will always be to find a balance between the competing wishes of savers and borrowers whilst staying competitive. I believe that we have maintained our positioning during a period of very low rates, and we will endeavour to remain competitive as we move through the current cycle.

The issue of climate change is also becoming ever more pressing, and your Society is taking the issue very seriously. During the year we have added more climate-aware products to our range, maintained our status as a carbon-neutral business and added criteria to our underwriting procedures to reduce the vulnerability of our mortgaged properties. There will be many more steps to take on this journey as we adjust our businesses and lives to a more climate-friendly position.

I would like to take the opportunity to say a heartfelt thank you to colleagues who have endured some challenging times over the past few years and who have responded superbly. As a Chair, I couldn't ask for a more positive and responsive team than we have in this business.

I'm sure you will also join the Board in saying a fond farewell to Jeremy Wood who has been Chief Executive for ten years. Jeremy has led the Society successfully through some challenging times during which your Society has grown significantly with more members than ever. He has positioned the Society as an exemplar in many areas and provided us with the opportunity of capturing even more successes in the future. We wish him well in his future endeavours.

May I also thank my fellow Board members for their support and, as we welcome James Paterson, our new Chief Executive, I know we will continue to place you, our members, at the centre of everything we do. I'm hoping that as many of you as possible will join us at the AGM to both say farewell to Jeremy and to welcome James.

Finally, may I thank you, our members, for your continued support and understanding over the past couple of years.

"I would like to take the opportunity to say a heartfelt thank you to colleagues who have endured some challenging times over the past few years and who have responded superbly. As a Chair, I couldn't ask for a more positive and responsive team than we have in this business.

PETER HUBBARD
CHAIRMAN
31 MAY 2022

Chief Executive's Review

The Chair has commented on how the Society has had to adapt to a changing environment and also about some of the new developments we are introducing to help members to deal with us more effectively. So, I will concentrate this commentary on the Society's performance in the last twelve months.

A key objective at Dudley is to grow the business each year. That means adding more new mortgages than are repaid and funding the growth through new savings. During the early days of the pandemic the Board was anxious that a greater effort should be placed on maintaining services for existing rather than acquiring new members. As a result of that, mortgage growth has been lower than we would normally wish. Lending before repayments was £71.1 million, and net lending was £4.3 million. We deliberately chose to hold high levels of liquidity during the pandemic, and introduced a competitive range of accounts for children, with 2,767 new accounts opened during the year of which 1,106 were for children.

In concentrating efforts on existing borrowers, we reduced the number of mortgages in arrears from 66 at the beginning of the year to 47 by the year-end. This might seem surprising given the circumstances faced by UK borrowers, but it is the result of hard work by a small team of people who take great care to find the best solution for borrowers facing payment difficulty. Our key capital ratios have improved during the year as increased profit gained from prior years' lending has improved our capital position.

This year's AGM will be my last as I step down after ten years as your Chief Executive. At the end of a long career, it has been a great privilege leading Dudley and I leave with the Society in a very strong position. It is now 164 years old and is in as good a shape as it's ever been. I see no reason whatsoever why it should not continue to prosper and be an important part of the local, Black Country, community for many years to come. I have been fortunate to work alongside colleagues with a passion to make improvements and to serve members in a way that befits a mutual building society.

As with any business, the Society will continue to change to meet the needs of its members and I know that it will be in good hands with James Paterson at the helm. I would like to thank our members for the support you continue to give the Society and the many colleagues I've had the pleasure to work with. I have learned a lot from them.

TEXT JEREMY

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"Our key capital ratios have improved during the year as increased profit gained from prior years' lending has improved our capital position.

JEREMY WOOD
CHIEF EXECUTIVE
31 MAY 2022

Strategic Report

This report describes the Society's strategy, business objectives and principal activities. It includes the Financial Review, which gives details of the Society's financial position and performance over the year, an assessment of the principal risks and uncertainties, including climate change risk and a new Social Responsibility section which highlights the focus on acting as a responsible business and having a positive impact on society.

The Society was established in 1858 with the aim of helping local people to buy their own homes. Over 2021/22, the Board refined the Society's strategy and reaffirmed its commitment to:

- Investing in its customer experience proposition to meet member needs
- Operating in underserved mortgage markets which generate attractive returns
- Retaining and evolving its branch network
- Maintaining human decision-making alongside automation
- Operating a control framework proportionate to our scale and risk appetite.

The Board also agreed that further emphasis should be applied to social responsibility, including the Society's response to climate change and its community focus.

The strategy is built on a position of optimism, despite uncertainty that remains due to the continuing pandemic, the situation in Ukraine and the economic impact of both. Having used 2020/21 as a period of consolidation, the revised strategy heralds a return to growth and increased investment in products, services and technology. Having weathered the storm of COVID-19, the Society ends the year in a strong financial position on which to build.

Business Objectives and Principal Activities

The Society's principal activity is the provision of long-term residential mortgages to borrowers, financed by personal savings from members. We deliver value to our members by:

- Maintaining our mortgage and savings pricing at rates which are competitive and fair
- Generating profit, which in turn adds to the Society's capital, protecting against risk
- Growing the business, allowing new members to participate in the Society's success
- Investing in our systems and processes, including directly into improving the customer experience
- Increasing the Society's contribution to wider issues in society, including climate change.

In meeting these objectives, we need to carefully balance the value provided to our savings members and our mortgage members, and the need to retain sufficient earnings to ensure the sustainability of the Society.

In our mortgage markets, we select areas which are underserved by competitors and in which we can achieve an appropriate return. In the retail savings market, we seek to attract funding through our branches and online by offering good value rates over the lifetime of the Society/member relationship.

Results for the year and Key Performance Indicators

The Board sets the strategy for the Society and uses a set of performance and control reports to oversee delivery, including use of Key Performance Indicators (KPIs). The KPIs in use throughout 2021/22, with previous year comparatives, are presented in the table below with explanatory notes for each measure provided in the appendix on pages 106 to 107.

With the increased focus on social responsibility, three new non-financial KPIs have been added this year, covering customer feedback, the Society's environmental impact and colleague satisfaction.

		2022 £m	2021 £m	2020 £m	2019 £m
Trading performance	Mortgage advances	**71.1**	21.3	125.1	92.6
	Total mortgage assets	**410.5**	406.2	436.6	359.6.
	Total shares balances	**444.7**	446.4	448.8	354.2

		2022	2021	2020	2019
Financial strength	Net interest margin	**2.15%**	2.00%	2.03%	2.22%
	Management expenses ratio	**1.64%**	1.64%	1.65%	1.73%
	Pre-tax profit	**£2.91m**	£2.21m	£1.48m	£1.60m
	Regulatory capital	**£27.9m**	£25.8m	£24.6m	£23.7m
	Liquid assets (% of SDL)	**22.1%**	23.4%	19.7%	18.4%
	Arrears 3 months or greater (no.)	**6**	11	15	25

		2022	2021	2020	2019
Non-financial measures	Customer feedback	**87.9**	87.2	89.5	83.5
	Environmental impact (tonnes of CO2e)	**59.38**	68.45	73.78	n/a
	Employee engagement	**79%**	n/a	79%	80%

The employee engagement survey was not run in 2021.

Financial Review

The Society prepares its financial results under Financial Reporting Standard (FRS) 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and elects to apply the measurement and recognition provisions of IAS39, "Financial Instruments: Recognition and measurement (as adopted for use in the EU)".

Profit before tax grew by 31.4% year-on-year, driven by increased revenues, releases of impairment provision and a well-controlled cost base. Further analysis of these components is provided in the sections that follow.

Overview of income statement

£000s	2022	2021
Net interest receivable	**11,287**	10,678
Other income and charges	**5**	(21)
Administrative expenses	**(8,163)**	(8,307)
Depreciation and amortisation	**(462)**	(441)
Impairment credit	**239**	302
Profit before tax	**2,906**	2,211
Taxation	**(642)**	(427)
Profit after tax	**2,264**	1,784

Strategic Report (continued)

Net interest receivable

Net interest receivable increased by 5.7% year-on-year. This was due to a modest increase in the size of the mortgage book over the year and an increase in net interest margin to 2.15% from 2.00% in the prior year.

To maintain the balance between the needs of both borrowing and savings members, the Society made no significant changes to its mortgage or savings pricing over the year. The Bank of England rate rises announced in December 2021 and February 2022 were not passed onto either set of members.

Following reduced levels of mortgage lending in 2021/22, the Society started the year holding high levels of liquidity. It has therefore not needed to attract new funding this year, instead using this liquidity to fund mortgage growth. This in turn led to the year-on-year increase in net interest margin.

Other income and charges

Other income and charges comprise fees and charges not accounted for within the Effective Interest Rate (EIR) methodology and bank charges. Also shown within this summary heading are fair value gains on derivative financial instruments of £137,000 (2020/21: fair value gains of £57,000).

Derivatives are used solely for risk management purposes and are an important tool for managing exposure to changes in interest rates from the Society's portfolio of fixed rate mortgages and savings products. All the Society's derivatives are in economic hedges with the majority in qualifying hedge accounting relationships. The fair value gains are predominantly due to accounting ineffectiveness arising within these relationships and will trend to zero over time.

Management Expenses

Administrative expenses include employee costs together with all other costs and overheads necessary for the Society to function. Together with depreciation and amortisation charges they comprise the total operating costs for the Society.

The level of these costs was broadly in line with the previous year. Total operating costs as a percentage of mean total assets remained steady at 1.64%, compared with 1.64% in the prior year. The Society has continued to invest in technology, and expenditure incurred this year on an upgrade to the core mortgage and savings system will result in higher depreciation and amortisation charges in future years. The Board has also approved a separate investment budget, to fund improvements to customer experience and community initiatives as well as further technology improvements.

Impairment charges

The Society maintains an appropriate provisioning policy designed to protect against future difficulties in the housing market and makes provisions for any estimated losses resulting from loans that are impaired on either an individual or collective basis. These provisions reduced by £283,000 in the year, of which £44,000 represents amounts written off and £239,000 is due to changes in provision levels, as follows:

£000s	**2022**	2021
Collective impairment credit	**(99)**	(361)
Individual impairment (credit)/charge	**(140)**	8
Total impairment credit	**(239)**	(353)
Charge on sale of properties in possession	**-**	51
Total credit to the income statement	**(239)**	(302)

At 31 March 2022 the Society held provisions totalling £0.9 million (31 March 2021: £1.2 million), analysed as follows:

£000s	**2022**	2021
Collective provision	**536**	635
Individual provision	**376**	560
Total	**912**	1,195

The Society uses statistical modelling techniques to derive the level of impairment provision required. Further details are set out in Note 1 to the financial statements. Management then applies judgement to decide whether overlays should be applied to the statistical models, to represent the risks inherent within the mortgage book more accurately. It is primarily the reduction in the level of overlay applied to the models that has resulted in the release of impairment provision noted above.

The main sources of overlay applied at 31 March 2022 were as follows:

- The government has provided significant support to borrowers during the COVID-19 pandemic, and this is likely to have reduced the level of loan defaults experienced by the Society over the past two years. The provision model may therefore be understating the probability of default (PD) of mortgages held at 31 March 2022. As this PD is used to estimate impairment that has been incurred but not yet identified, which impacts on the level of collective provision, an overlay has been added to compensate for this.
- The UK is currently experiencing unusually high levels of inflation, led by energy prices, which will restrict the money available to borrowers to meet their debt repayments. This is also likely to have driven impairment that has not yet been identified. A further overlay has been added to increase the PD of borrowers, to take account of this impact.

The main sources of overlay applied at 31 March 2021 were as follows:

- In response to the pandemic, the Financial Conduct Authority (FCA) issued guidance to lenders about the actions it expected them to take when faced with borrowers who sought forbearance from their usual monthly mortgage payment. The most significant element of the guidance instructed lenders to offer periods of deferment (holidays) from normal payments of up to six months in total. The Society made 570 such arrangements with 21 accounts remaining on deferred payment arrangements as at 31 March 2021. An overlay was added to account for the higher PDs associated with such cases. As these cases have all now returned to normal arrangements, this overlay is not required at 31 March 2022.
- The provision model uses the house price index (HPI) to ascertain the likely value of security should repossession be required following default. This impacts on the loss given default (LGD). At 31 March 2021 it was considered that HPI could be artificially inflated due to the pandemic response, particularly reduced levels of stamp duty, which in turn would reduce LGD. An overlay was applied to remove some of the increase in HPI and hence increase LGD. At 31 March 2022, the Society does not consider HPI to be artificially inflated and so no such overlay has been applied.

Arrears Management

The Society continues to actively manage its mortgage accounts in arrears, always considering individual customer circumstances. At 31 March 2022 the Society had two accounts on which payments were twelve months or more in arrears (31 March 2021: three), with a total arrears balance outstanding of £15,000 (31 March 2021: £26,000) and capital balance of £197,000 (31 March 2021: £275,000). For the second year running, the number of cases in arrears fell and as at 31 March 2022, 47 borrowers were experiencing arrears (2021: 66). Individual provisions have been made where necessary in respect of all arrears cases.

At the end of the year the Society had one property in possession (31 March 2021: two properties).

Profitability

The after-tax profit of £2.3 million (2021: £1.8 million) represents 0.43% (2021: 0.34%) of mean total assets. At 31 March 2022 the Society's reserves amounted to £29.0 million (31 March 2021: £26.7 million) and are at a level considered by the Board to offer adequate support for the business.

Assets

Total assets decreased during the year by £8.2 million (2021/22: decrease of £15.6 million) and at 31 March 2022 amounted to £523.9 million (31 March 2021: £525.7 million).

Overview of statement of financial position

£000s	2022	2021
Liquid assets	**108,896**	116,256
Loans and advances to customers	**410,473**	406,180
Fixed and other assets	**4,574**	3,305
Total assets	**523,943**	525,741
Shares	**444,707**	446,416
Amounts owed to other customers	**48,365**	49,885
Other liabilities	**1,872**	2,718
Total liabilities	**494,944**	499,019
Reserves	**28,999**	26,722
Total liabilities and reserves	**523,943**	525,741

Liquid assets

The Society holds liquid assets to ensure it can always meet its obligations as they fall due and in accordance with the Board's risk appetite and regulatory requirements.

The majority of the Society's liquid assets are held in the form of deposits with the Bank of England, which qualify as High Quality Liquid Assets (HQLA) using the regulatory definition. Total liquidity at the end of the year comprised:

£m	2022	2021
Bank of England	101	94
UK Government	-	10
Other Bank deposits	8	12
Total	**109**	116

Total liquidity represented 22.1% of shares and borrowings at the year-end (31 March 2021: 23.4%). This is significantly higher than risk appetite because of the holdings of excess liquidity referred to above. The Society's intention is to reduce this level of liquidity over the coming year as mortgage advances increase.

The key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR), which measures HQLA as a percentage of net cash outflows over a 30-day stress period. The LCR at 31 March 2022 was 278% (31 March 2021: 366%). This was significantly in excess of minimum regulatory requirements.

Mortgages

The majority of the Society's mortgages are advanced to owner-occupiers. Expertise has been developed in the Society to underwrite and service specialist types of lending and therefore provide underserved market segments with much-needed mortgage solutions. Mortgage advice is provided by mortgage intermediaries who are well-placed to source the most appropriate product for a borrower.

After a year of contraction, the Society re-engaged with its intermediary partners and re-entered the market. The mortgage book returned to growth in the second half of the year, closing at £410.5 million net of impairment provisions, up from £406.2 million as at 31 March 2021.

Shares and deposits

Funding provided by members is overwhelmingly the most important source of funding for the Society, with the majority of these shares and deposits serviced via our branch network. Given the high levels of liquidity holdings noted above, the Society has not needed to attract new funding in the year.

Despite this, shares and deposits remained at a similar level, closing at £444.7 million (31 March 2021: £446.4 million). We consider this to be due to the ongoing loyalty of our membership, as well as our commitment to maintaining fair rates of interest. The Bank of England rate rise announced in March 2022, the third in four months, will lead to rises in rates for all of our variable rate savings products as well as for mortgages, to maintain the fair balance between our two sets of members.

Funding

To ensure it can always maintain necessary levels of liquidity, it is important that the Society has access to an appropriately diverse range of other funding sources. The main source of such funding continues to be the Bank of England. The Society remains an active participant in the Bank of England's Sterling Monetary Framework and currently holds £40 million under the Bank's Term Funding Scheme with additional incentives for SMEs (TFSME). This funding is repayable in March 2025 and is included within Amounts owed to other customers.

To support funding diversification and to provide contingency facilities, the Society also has access to shorter (6-month term) funding through the Bank of England's Indexed Long-Term Repo (ILTR) scheme.

Capital

Capital consists of the Society's reserves plus collective provision balances, less intangible asset balances which are required by capital regulations to be deducted from capital. The minimum level of capital required to be held is set by the Prudential Regulation Authority (PRA) however, the Board has a risk appetite to hold capital in excess of this requirement to protect the Society and its members from the effect of shocks or stresses. After regulatory deductions, and including the 2022 audited profit, the Society's regulatory capital stood at £27.9 million at 31 March 2022 (31 March 2021: £25.8 million), £9.3 million above the minimum regulatory capital requirement (31 March 2021: £7.3 million).

At 31 March 2022 the Society's gross capital ratio was 5.88% of shares and borrowings (31 March 2021: 5.38%). The free capital ratio was 5.66% of shares and borrowings (31 March 2021: 4.96%).

Further details on the Society's management of capital are set out in Note 30 to the accounts and includes a reconciliation of capital per the statement of financial position to regulatory capital.

Risk Management Objectives and Policies

The day-to-day operations of the Society exposes it to a range of financial and non-financial risks, each of which is owned by a member of the Executive. The management of those risks aims to ensure that the outcome of any risk-taking activity is consistent with the Society's strategy, the Board risk appetite, is appropriate to the Society's business, is compliant with current regulation and gives due regard to regulatory guidance.

In this way, risk management also seeks to achieve an appropriate balance between risk and reward in order to optimise member returns and, where issues arise, to manage for the best outcome for the Society and its members.

The Society adopts a "Three Lines of Defence" model to separate risk management activities between those responsible for risks and controls, independent oversight support and challenge, and internal audit assurance. The Society also has an Enterprise Risk Management Framework (ERMF) that formally documents the Society's structure for managing risks and the Board Risk Appetite. This is the key tool used by the Society's Governance, Risk & Compliance (GRC) team in providing oversight to risk management as part of their role as the second line of defence.

The Board delegates its risk oversight to a Risk Committee, which reviews risk limits, reporting lines, mandates and other control procedures. Specifically, the Society's Assets and Liabilities Committee (ALCO) is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. Full details regarding the risks and the financial instruments used by the Society are given in Note 27 to the Accounts.

Risk culture

The Society considers its mutual status as being paramount to its identity. The culture embedded within the Society includes the implicit rules, ideas and norms that sustain our values and enables our Employee Expectations Framework, which defines required behaviours, decision making principles and wider practices, to operate successfully. Risk culture is a subset that governs how the Society's employees manage the risks associated in delivering the Corporate Plan, the agreed strategy and day-to-day operations. Risk culture also incorporates risk awareness, understanding, appetite and mitigation.

The Society is governed by and is proud of its strong risk culture and aims to maintain a low exposure to risk, in order to best protect members' interests. The Board places significant emphasis on every line of defence having the correct ownership of risk through training, management and reporting. Exemplary conduct is expected from everyone in the organisation as defined by our Society values. Over the last twelve months, the Society has continued to invest in evolving the design of the ERMF. This has driven enhanced embeddedness of risk through first line of defence business areas, further efficiency and effectiveness within the second line GRC team and improved cohesion with the Society's out-sourced internal audit provider.

Stress testing

Stress testing is a risk management tool used by the Society to understand the impact of severe but plausible scenarios on its business performance. The Society uses a prescribed Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) to identify capital and liquidity risks with stress testing forming an intrinsic part of these processes. These tests are agreed by the Board ahead of the assessments being carried out. Other stress tests, including operational - and IT-based risk events, are also undertaken with the output from all processes used to inform Board risk appetite, policies, management actions and contingency plans.

Capital stress tests are conducted in the ICAAP. These include stresses of risks existing in the business and potential future risk scenarios. During the year, as part of regular reforecasting, the Board receives outputs from stress tests on the mortgage assets, including on the impact of changes to the base rate of interest.

Liquidity stress tests are performed on a regular basis with results reported to the ALCO. These stress tests help identify any shortfalls in the Society's levels of liquidity in a range of scenarios. The Society has a Board-agreed risk appetite for interest rate risk, whereby hedging measures are required to be put in place so that the impact on earnings of a 2% shift in interest rates cannot exceed £600,000, and the outcome of stress tests is measured against this risk appetite.

The PRA carries out an assessment of the Society and may issue specific minimum capital and liquidity levels based on its assessment of the risks faced by the Society, including under stressed conditions. During the year, the PRA notified the Society that as a result of the ongoing improvements made within the risk environment and the further embedding of the risk culture, the Society will be required to hold a lower level of regulatory capital.

The Society has a strong level of open and transparent communication with its regulatory supervisory team enabling advance notification of plans to be managed more effectively.

Strategic Report (continued)

Recovery Plan and Resolution Pack

It is a regulatory requirement for all banks and building societies to construct plans that detect possible failure and minimise the consequences of failure should it occur. The Society maintains a Board-approved Recovery Plan and a separate Resolution Pack that outlines a series of options the Society could credibly take to recover from a Society-specific or market-wide stress. The Resolution Pack contains prescribed information necessary for the Bank of England to establish an orderly resolution of the Society in the event that recovery is not possible. Both documents are updated at least annually.

Principal Risks and Uncertainties

The principal business risks to which the Society is exposed, how the Society approaches and mitigates those risks, and an assessment by the Directors of how each risk presents itself to the Society compared to the prior year are as follows:

Principal Risk	Risk to the Society	Mitigation	Potential Impact of risk to the Society
Credit risk	Credit risk refers to the potential risk that arises from customers (or counterparties) failing to meet their obligations as they fall due, resulting in an actual or potential loss exposure for the Society. Credit risk arises primarily from two categories: Retail lending, comprising loans to our retail mortgage customers and historic loans to our commercial mortgage customers; and Treasury activities, arising from our liquid asset investments. As a primary lender, the Society faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Society's borrowers, deterioration in UK economic conditions or adverse changes in UK or even global systemic risks could reduce the recoverability of the Society's assets.	Credit risk is mitigated through the Society's Credit Risk and Lending Policy and separate Treasury and Prudential Risk Management Policy, which reflect the Board's approved low risk tolerance and which include clear guidelines in respect of processes and exposure management. The Society has adopted an approach to lending which restricts our lending activities mainly to prime quality residential mortgages for owner-occupiers, with lending decisions fully underwritten on an individual basis. The ALCO is responsible for managing treasury activity and recommends limits on treasury counterparties, country exposures and types of financial instruments for approval by the Board within regulatory guidelines. An analysis of the Society's mortgage portfolio by geographic region, Loan to Value (LTV) and of the Society's arrears is provided in Note 27 to the accounts.	The credit risks as presented 12 months ago, related to COVID-19, did not crystallise, principally due to the support provided by the UK Government. Going forward, the Society will continue to support borrowers as best it can with inflationary pressures ahead. Impairment models are further embedded within underlying credit risk processes within the Society. Work is underway to evaluate how the models can be embedded further into the Society's risk appetite and credit decisioning. Accordingly, **the Directors consider that the level of risk has reduced**.

Principal Risk	Risk to the Society	Mitigation	Potential impact of risk to the Society
Interest Rate Risk	Market risk is the risk of changes to the Society's financial condition caused by movements in market interest rates or the early redemption of assets. The only material market risk that the Society is exposed to is interest rate risk. Interest rate risk is the risk that the value of, or income arising from, the Society's assets and liabilities vary as a result of changes in interest rates. Interest rate risk arises from imperfect matching of different interest rate features, repricing dates and maturities of mortgages, savings and wholesale products.	The Society has adopted the "Matched" approach to interest rate risk, as defined by the PRA, which aims to undertake the hedging of individual transactions within an overall strategy for structural hedging, based on a detailed analysis of the statement of financial position. Interest rate swaps are used, where appropriate, to manage the risks outlined. In addition, swaps are used to manage risks arising from a net exposure to an interest rate basis type e.g. SONIA. The Society also monitors prepayment levels on fixed rate mortgages and aims to set an Early Repayment Charge (ERC) consistent with the interest rate risk exposure. All assets, liabilities or derivatives that previously referenced LIBOR were novated to new SONIA benchmarked instruments prior to the 31 December 2021 deadline. The management of interest rate risk is based on a full statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 2% rise in interest rates on a monthly basis and the results reported to ALCO. Management also reviews interest rate and basis risk under stressed scenarios. Results are measured against the risk appetite for market risk which is set at a maximum of £600k and are reported to the Board Risk Committee. Other interest rate exposures, for example, basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics) and prepayment risk (the risk of loss arising from early redemption of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.	The need to control the inflationary pressures within the UK economy by means of increasing interest rates means that the environment is now more volatile than 12 months ago. The Society continues to monitor the interest rate risk and will continue to hedge where applicable. The high number of fixed rate mortgage products and administered savings products allows the Society to manage this risk. However, as the Society operates in a more volatile environment where interest rates are expected to rise, the **Directors consider that there has been an increase in the level of risk**.

Strategic Report (continued)

Principal Risk	Risk to the Society	Mitigation	Potential Impact of Risk to the Society
Liquidity risk	Liquidity risk is the risk that the Society is unable to make available sufficient resources to meet its current or future financial obligations as they fall due or is only able to at a premium cost. This risk also includes the risk that the Society attracts excessive liquidity through poor product management, acting as a drag on financial performance. The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Society and to enable the Society to meet its financial obligations. This is achieved through maintaining an adequate level and quality of liquid assets, through wholesale funding and through management control of the growth of the business. The Society relies on its access to sources of funding to finance the origination of new business and working capital. If access to funding became restricted, either through market movements or regulatory or government action, this might result in the scaling back or cessation of new lending.	The Society, through its Finance and Treasury team (overseen by ALCO), seeks to mitigate this risk by managing the Society's portfolio of liquid assets to maintain assets in liquid form in such proportion and composition (as determined by ALCO) as will at all times enable it to meet its liabilities as they arise (including any unexpected adverse cash flow). The Society monitors its overall liquidity with reference to limits set by regulation and also internal limits set by the Board through the Treasury and Prudential Risk Management Policy. To further assess the Society's exposure to liquidity risk, a series of liquidity stress tests have been designed with the results reported to ALCO. The stress test scenarios developed evaluate the impact of idiosyncratic, market wide and combination stresses on the Society's liquid assets. If, as part of the ongoing monitoring of the liquidity position, the Society identifies additional liquidity is required, further contingency funding is available from the Bank of England.	Further analysis has been undertaken over the year, to deepen the understanding of the Society's liquidity resources and needs, and how best to optimise liquidity. The Society has also significantly enhanced its capability within this area with new processes and controls now fully embedded. Accordingly, **the Directors consider that the level of risk has reduced**.

Principal Risk	Risk to the Society	Mitigation	Potential Impact of Risk to the Society
Operational risk	Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other external factors. The risk is managed by the departmental Managers of the Society – the 'Risk Owners' - who have responsibility for putting in place appropriate controls for their business area. A quarterly report to the Board Risk Committee sets out key risk metrics. The Society also maintains a range of insurance policies to cover eventualities such as business interruption.	During the year, the Society continued to enhance and embed its Enterprise Risk Management Framework. The framework is used to record and monitor operational risks, and provides the ability for impact and likelihood of materialisation to be assessed. The framework promotes an effective and efficient control environment with assurances processes to determine exposures. In addition, a project was initiated to enhance operational resilience and ensure that important business services can continue to be provided to members. An Operational Resilience Self-Assessment was documented, and a series of impact tolerances were approved which stipulate the maximum timeframe in which the Society would be willing to sustain a period of disruption. Additional processes have been created to ensure members are not significantly impacted, and stress tests have been designed to ensure appropriate management action can be taken to reduce impact and likelihood of disruption. The approach compliments the Society's Disaster Recovery and Business Continuity Plan which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant business disruption. There were **no** material risk events during 2021/22 (2020/21: none).	Significant additional regulatory focus on the need for firms to have greater operational resilience and other areas have led the Society to review the increased requirements within this area. The Society has further embedded its Enterprise Risk Management Framework within its core processes supported by an improved controls environment and the creation of an Operational Resilience Policy. Accordingly, **the Directors consider that the level of risk remains stable**.

Principal Risk	Risk to the Society	Mitigation	Potential impact of risk to the Society
Regulatory risk	This is the risk to the business, through financial loss or reputational damage that arises from a lack of compliance with relevant laws and regulations.	The Society monitors such risks via its second line Compliance team and through both its Board Risk Committee and Audit and Compliance Committee with comprehensive reporting and assessment of regulatory risk. The Society operates a Regulatory Review Committee which ensures new and updated regulatory change is owned and implemented.	There has been a significant amount of regulatory focus in the last 12 months as a result of Brexit and the upcoming changes resulting from the Capital Requirements Regulations II ("CRR2") and Basel regulations. Process, procedures and controls have been put in place via the reporting and assessment of regulatory risk to ensure that changes are managed effectively within the existing framework. Accordingly, **the Directors consider that the level of risk remains stable**.
Conduct risk	This risk can arise when a firm's actions or behaviours result in inappropriate or poor outcomes for customers. The Society has a customer-focused culture that is in line with the principle of an organisation which is owned by its members.	Conduct Risk is assessed and monitored through the Society's Board Risk Committee structure, including via its Operational & Conduct Risk Committee which considers the Society's key customer interactions and metrics. The Society has a simple product range that aims to reduce potential exposure to conduct risk. All colleagues who engage with customers receive appropriate training in accordance with the relevant Training and Competency Scheme to ensure customers are treated fairly.	The Society has undertaken a significant amount of work to better understand how it can support vulnerable customers. The low number of complaints received during the year is evidence that the customer-focused culture is fully embedded within the Society. Accordingly, **the Directors consider that the level of risk remains stable**.
IT Security risk	Cyber-crime and the security of information held by the Society are a constant risk. The Society acknowledges the risk of a disruption caused by a successful cyber-attack on core IT systems, which may result in the loss or inappropriate use of data or sensitive information. The Society's core systems are dependent upon the continuing availability and resilience of the managed service that is provided by Unisys Ltd.	The Society works closely with Unisys Ltd and regular assurance activities are undertaken on third-party IT Governance and Controls to ensure compliance. The Society has already invested heavily and continues to invest in new technologies to ensure the confidentiality, availability and integrity of Society data.	Threat levels have increased due to the conflict in Ukraine and organised crime. Additional focus has been placed on preventative measures and investment in IT infrastructure to mitigate the increased threat. Accordingly, **the Directors consider that the level of risk remains stable.**

Financial risks from climate change

Climate change presents a risk to the Society and its members both in the immediate present and in the future. The Society strongly believes in making a significant positive contribution towards reducing the impact of climate change where possible through its mortgage and savings products and its corporate and social responsibility initiatives.

In setting out its disclosures for climate change related risks, the Society has incorporated the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Established by the global Financial Stability Board (FSB) in 2015, the primary goal of the TCFD was to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in helping to understand the risks that climate change would present and how best to report them.

The Final Report of Recommendations was published by the TCFD in June 2017 and set out a framework of four core elements supported by eleven recommended disclosures. Subsequent to the publication of this report, the PRA issued Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change which sets out the regulator's expectations for firms in relation to managing the financial risks from climate change.

In SS3/19, climate related risks are classified as either physical (physical manifestations of climate change such as increased flooding, extreme weather and rising sea levels) or transitional (risks that arise directly as a result of moving to a low-carbon economy) and regulated firms are expected to develop a strategic approach to each of those risks that is aligned to the four core elements as recommended by the TCFD report, namely:

- Governance;
- Strategy;
- Risk Management; and
- Disclosure

The PRA issued a Dear CEO letter in July 2020, following thematic work undertaken by the regulator that confirmed that firms should fully embed their approaches to managing climate related risks by 31 December 2021.

Each of the four core elements and the Society's approach to those elements are addressed as follows:

Governance

In his role as being accountable for the Senior Management Function, the CEO is ultimately responsible for the management of the Society's approach to climate change risk, including ensuring the embedment and consideration of the financial risks from climate change. The CEO is supported in this task by the Board and Board Risk Committee. During the year, a project was established to ensure the Society could meet its requirements under SS3/19, with individual members of senior management given responsibility for each key area. The Board has received regular updates in respect of the progress of this project.

Given the emphasis the Society is placing on climate change and associated risk, the Board agreed the addition of a new Key Objective, "Society", within the Strategy that it approved in September 2021. This Key Objective includes the requirement to develop a Green Strategy, further details of which are given below.

Furthermore, the Society has introduced Climate Change Risk Appetite Statements and the Credit Risk Committee and Executive Committee are responsible for providing ongoing reporting against those statements. Where appropriate, items of note are escalated to the Board Risk Committee or Board.

Strategy

During the year, the Society developed a Climate Change Strategy document. A key part of the Society's strategic plan for the medium and long term, the document formally identifies the impact of climate change on the Society's strategy and also the strategic approach to climate change risks, both physical risks and transition risks. In addition to this, the Society has introduced and embedded a Green Finance Action Plan as part of the climate change agenda.

Additionally, climate change is now defined as a key strategic initiative within the Society's corporate plan. The corporate plan includes considerations around the requirements for climate change, including the development of a more detailed Green Strategy for how the Society will best contribute to climate change initiatives with positive outcomes.

The Society has introduced a suite of green mortgage products available to borrowers who are looking to improve the Energy Performance Certificate (EPC) rating of their properties. The corporate plan also includes the introduction of savings accounts that will impact positively on climate change.

Risk Management

The Society maintains a specific climate change risk register that currently identifies a number of risks for both physical and transition climate change related risks. The register is maintained and monitored by the Credit Risk Committee against the Board approved climate change risk appetite statement. The risk appetite statement has been separated into a risk appetite in relation to both corporate and social responsibility and lending.

Strategic Report (continued)

Within the climate change risk appetite, the Society identified a number of risk indicators aligned to each risk appetite statement. The monitoring and reporting of the risk indicators is embedded within the Society's management information reporting regime. The risk indicators will develop further over the coming year to ensure they are aligned to the Green Strategy. Climate change risk has been identified as a specific risk universe within the Society's enterprise risk framework and as such is monitored and reported against within the Board Risk Committee reporting cycle.

As part of the ongoing requirement for scenario analysis, the Society has engaged with an external firm, Landmark, to assess the level of risk that climate change currently presents to the Society whilst ensuring that the requirements specified by the PRA within SS3/19 are met. Landmark considered a wide range of both physical and transition risks over a long-range timeframe, and as part of their output from the review they were able to identify a value for the potential realised loss under each of the scenarios. The scenario analysis is planned to be undertaken on an annual basis with the outcomes of the report being reported within the current governance framework.

Additionally, climate change risk is also considered at length within the ICAAP review process to ensure that the Society continues to hold adequate levels of capital within the pillar 2 regime.

Disclosure

One of the key corporate and social responsibility objectives within the climate change risk appetite statement is the ongoing reduction of the carbon footprint required to maintain and operate the Society for and on behalf of its members. The Society monitors and reports its gas emissions by means of the tonnes of carbon dioxide equivalent (tCO2e) metric for scope 1, scope 2 and scope 3 emissions.

Scope 1 and scope 2 emissions incorporate those items that are directly attributable to operating the Society in the form of gas and electricity usage across the portfolio of properties operated by the Society. Scope 3 emissions relate to the indirect emissions for the Society, namely employee homeworking and commuting.

Scope	**2022**	2021	2020
Scope 1	**5.22**	4.84	10.47
Scope 2	**32.35**	31.63	48.35
Scope 3	**21.82**	31.98	14.16
Total tonnes of CO2e	**59.38**	68.45	73.78
Decrease on previous period – tCO2e	**(9.07)**	(5.33)	–
Decrease on previous period – %	**(13.25)**	(7.22)	–

Social Responsibility

Building on its already strong sense of social responsibility and range of activities underway, the Society has now gone a step further and added Society as a new key strategic objective, alongside Customer, Intelligence, Growth and Control. These five objectives are the cornerstone of the Society's strategy, and inclusion of Society provides additional emphasis on our need to act as a responsible business and have a positive impact on society.

Within this strategic objective, we are particularly focusing on our Green Strategy and Community Strategy. The former will seek to define how we can best play our part in tackling the looming issues of climate change, while the latter will consider where we can best make a difference in our local region. In 2021/22, the Board approved the setting-aside of 2% of each year's profit after tax, for use in community initiatives under the new strategy. This means that at least £45,000, being 2% of the profit after tax for 2021/22, will be allocated to the Community Strategy next year.

The sections below set out the key activities in respect of customer, the environment, our community and colleagues over the year to 31 March 2022.

Our Customers

We always strive to meet the needs of our members and provide excellent service, and we pull in feedback from a range of sources in order to do so. As well as communicating directly with members , for example at recent meetings held at our branches we use independent provider Smart Money People to provide insight into our customer service. This provides us with key metrics including Net Promoter Score, which is an industry recognised measure of Customer Loyalty, Customer Service and Value for Money.

Our Net Promoter Score has consistently been above 80%, and improved in the year from 87.2% to 87.9%. Thoughout the year, this score has exceeded that of the average of all building societies, which is a testament to the hard work and attitude of our colleagues in service teams and in the branches.

We are maintaining our commitment to the branch network, and during the pandemic worked hard to keep our branches open for longer where other providers reduced opening hours. This commitment is also demonstrated by our renewal of the lease on our Perton branch. We have also recently re-introduced the popular will-writing service to our branches, and increased our maximum daily cash withdrawal limit.

Over the last year, we have also been dedicated to powering the lives of our members through additional resources on our website. We have added additional guidance around fraud and cyber awareness, including a video to educate young people on how they can stay safe online. Other guidance has been added for areas such as energy efficiency and will writing, and we have been listening to our members feedback to continuously provide help and support wherever we can.

The accessibility of our website for those who may have visual impairments, dyslexia, or requirements for translation services has been improved, as we have added an accessibility toolbar that allows users to alter a wide range of aspects across our website to fit their requirements.

The Society has also become a supporter of the FairLife Mark, a fair-trading mark that represents a pledge to price honestly and trade fairly with customers. Our purpose as a business is to find solutions where others can't in a transparent and honest way, with our members' best interests in mind, so becoming a FairLife Mark supporter is something that we take very seriously.

Our Environment

In the last 12 months, we have continued to maintain our status as a carbon neutral organisation through a donation to a project that supports the introduction of energy efficient cookstoves in Malawi. As noted in the description of Financial risks from climate change in page 21, the carbon footprint of the Society has reduced compared to prior year. The Board is heartened to note the continued improvement in our footprint, and we continue to seek measures to improve our energy efficiency, particularly as more employees are returning to the office after the COVID-19 lockdowns.

Our green finance working group continues to work to find ways for us to respond to the climate crisis, and the focus on how we can improve is an increasingly important part of our agenda and future plans. This work will evolve to form the Society's Green Strategy, which will be presented for Board approval in the following financial year.

Strategic Report (continued)

Our Community

Supporting our local communities continues to be a key focus for the Society, as our member base is located predominantly within areas surrounding our branch network. We offer support through donations, volunteering, event sponsorship, and by providing career opportunities. All of our employees are encouraged to volunteer in the community with paid leave.

Throughout the last 12 months we have continued to support our Charity of the Year, Black Country Mental Health, sponsored the Dudley Group NHS Charity's Glitter Ball fundraising event, become an associate sponsor for the Express & Star's Cash for Schools initiative, volunteered our time to support The Christmas Lunch Project and much more. We have actively been supporting causes within the local community wherever we can, offering more hands-on support where possible.

We have also continued the development of financial education materials for young people, as we are passionate about ensuring they have the tools to manage their finances in later life. We are delighted to have a range of financial education activities now available for Key Stage 1 and Key Stage 2 children, with the support of the charity, Young Money.

Our community efforts will be boosted by the funding from Society profits referred to above. Given the importance of this area to the Society, a Community Strategy is under development and will be considered by the Board in the coming financial year

Our People

The wellbeing of our colleagues is of prime concern and has been a particular focus during the year, as the impacts of COVID-19 have continued to be felt. We have been flexible with our working practices, moving quickly to respond to the evolution of the pandemic and changes in government guidance. With homeworking becoming a key feature for most of our colleagues, we have closely monitored how our workforce has adapted and our mental health first-aiders have been available when needed.

Given this backdrop, we were delighted with the results of our latest employee engagement survey. With a 78% response rate, the survey showed an overall engagement score of 79%. The engagement score was also 79% when the survey was run in 2020; we did not run the full survey in 2021 due to other communication and bespoke surveys put in place in respect of COVID-19. It was very encouraging to see that the score had remained at this very positive level following the changes in working practice we adopted.

The Society has continued to focus on diversity and inclusion, with a new Diversity Working Group set up during the year, with wide employee representation including at Board level. Increasing diversity and inclusion will develop the range of skills, experiences and perspectives across the Society, ultimately driving improved performance. All of our people practices are designed to encourage diversity and inclusion.

To this end, as part of our training and development programme during the year we used an assessment tool to understand the preferred working styles of our Board members and senior managers, followed by sessions to develop how these could best be brought together to achieve optimum results. To ensure we embed a culture of learning and growing within the Society and to understand our people as individuals, we have now rolled the tool out to all colleagues.

This year has seen the Society making use of the UK Government's Apprentice Levy for the first time. Use of apprentices has been considered for all roles recruited for in the year, and six apprentices have joined the Society, including into our branch network. This intake is performing well and have all recently been offered permanent roles. We have started recruiting for the next group of apprentices who we hope to join us at the start of the new financial year, and we expect to expand our use of the levy in future years across all areas of the Society.


the SQUIRREL SAVER Story
Every year the acorns begin to fall when the first AUTUMN winds drift through the forest.
Busy squirrels scurry around the forest floor to collect and SAVE the falling acorns, to eat when all the acorns have DISAPPEARED!
My name is Sebastian the Squirrel, the busiest squirrel in the forest, and I am an ACORN SAVING PROFESSIONAL.

Directors' Report for the year ended 31 March 2022

The Directors have pleasure in presenting their 163rd Annual Report, prepared in the context of the UK Corporate Governance Code and in accordance with the requirements of the Building Societies Act. The Directors' Report should be read in conjunction with the Chairman's Statement, Chief Executive's Review and Strategic Report.

Information presented in other sections

Business objectives and activities	Strategic report (page 10)
Business review and future developments	Strategic report (page 10)
Disclosure requirements under CRD IV Country by Country reporting	Note 31 to the Accounts

Directors

The following persons were Directors of the Society during the year:-

Peter Hubbard	(Chairman)
Paul Doona	(Deputy Chair; Retired 15 July 2021)
Nicole Coll	(Appointed Deputy Chair from 16 July 2021)
Joanne Baldwin	(Appointed 4 May 2021)
Zamir Chaudhry	
Tariq Khatri	
Jeremy Wood	(Chief Executive)
Stephen Heeley	(Appointed 5 July 2021; Finance Director from 16 July 2021)
Kieron Blackburn	(Finance Director to 15 July 2021; Interim Commercial Director from 28 August 2021)
Samantha Ward	(Commercial Director until 27 August 2021; Maternity leave from 1 October 2021)

During the year, the Board appointed Stephen Heeley as Director. Kieron Blackburn was originally employed on a one-year contract and did not, therefore, stand for election in 2021. Kieron is now subject to a fixed term contract until 31 December 2022 and has been appointed Interim Commercial Director. Samantha Ward is currently on maternity leave and so is not standing for election.

Jeremy Wood served notice of retirement on 14 January 2022 and accordingly is not standing for re-election.

All other Directors are subject to annual re-election. Therefore, Peter Hubbard, Nicole Coll, Joanna Baldwin, Zamir Chaudhry and Tariq Khatri all retire and offer themselves for re-election at the Annual General Meeting (AGM).

Engaging with our Stakeholders

The Society's Board is committed to operating in line with best practice standards of corporate governance as set out in the UK Corporate Governance Code ("the Code"). In order to comply with the Code, a firm is required to explain how the directors have considered the views of stakeholders as part of the long-term decision making process in the form of a Section 172 Statement.

Whilst the Society is not required to comply with the Code, to ensure that the Society remains committed to best practice under the guiding principles that the Society operates, the Board believes that the views of stakeholders should be considered when making long-term decisions.

The obligations set out in the statement require the Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefits its members as a whole, and in doing so have regard across a number of key areas:

- The likely consequences of decisions in the long term;
- How we engage with and take account of employees' interests;
- How we foster effective working relationships with wider stakeholders such as suppliers;
- How any community and environmental impacts of our operations are considered;
- How a reputation for high standards of business conduct is maintained; and
- The need to act fairly and balance the interests of members.

A summary of the Society's engagement with its key stakeholders is presented opposite.

Stakeholder Group	Why are they important?	How the Society engages with them
Savings and Borrowing Members	As a mutual organisation, our members are the owners of the Society. The Board recognises that in order to achieve long-term success, it is critical to understand and address the needs of our members, whilst ensuring delivery of the Strategy.	The Society is committed to communicating with members through quarterly newsletters, social media, and ad hoc email communications. In addition to this, we are committed to providing additional help and support wherever we can, in areas such as fraud awareness and energy efficiency. The Society also engages with its members by collecting feedback via an independent review platform, Smart Money People, who undertake consumer reviews on behalf of the Society. The Member Focus Forum regularly meets to discuss any solicited and unsolicited feedback received. All feedback is considered to further improve our member experience and customer service. Each year the Society sends details of the AGM to members who are eligible to vote. Members are encouraged to exercise their right to vote. Members are provided with forms which enable them to vote utilising a proxy if they are unable to attend the AGM. Members can also vote online.
Employees	Our people are critical in the successful delivery of the Strategy to our members. By listening to and acting upon the views of our people, we will create a culture where the needs of our members are addressed through outstanding customer service, driven by our employees' experiences.	The Society engages with employees in several ways, including regular meetings, employee surveys, newsletters, video calls and video updates. The Society also holds a monthly employee forum, where employees can share their views and ideas to enhance employee engagement and initiatives. Employee surveys are conducted, and the results are reviewed by Executive and Management teams to ensure actions are taken to address any issues raised. With employees working from home during the COVID-19 pandemic, the Society has taken additional steps to support employee wellbeing, which included campaigns, wellbeing calls and flexible working arrangements. The Society has 10 trained Mental Health First Aiders, who develop a variety of initiatives to support wellbeing. The Society has a group focused on diversity and inclusion who are committed to bring meaningful initiatives which will drive forwards a culture of belonging for our employees and members.
Third Parties	Our third parties that we work with are critical in helping us to operate the Society and deliver quality service to our members.	Regular review meetings are held with the Society's third parties by key contacts in the Society, as well as routine updates by email, phone call or face-to-face meetings. For our mortgage partners, the key contacts are the Business Development team, who are responsible for ensuring that the sourcing systems are kept up to date with relevant underwriting criteria and product changes.

Stakeholder Group	Why are they important?	How the Society engages with them
Community	As a Society with a mutual ethos at its core, we believe in supporting our local communities is a fundamental part of what we do.	The Society has continued to support our Charity of the Year, Black Country Mental Health, for the third year running. We have also extended our support for the local community by sponsoring the Dudley Group NHS Charity, Express & Star's Cash for Schools initiative, volunteering our time to support local causes, and much more. More recently, we supported Ukrainian refugees by donating needed items to a local collection and donating funds to Unicef. The Society has also continued the development of financial education materials for young people, as we are passionate about ensuring they have the tools to manage their finances in later life.
Environment	It is our duty to fully understand and reduce the impact that the Society's operations may have on the environment thus ensuring our members can be served now and in the future.	The Society has maintained its carbon-neutral status, through a donation to a project that supports the introduction of energy efficient cookstoves in Malawi. In addition to this, the Board is keen to set a carbon net zero target date. Over the last year, a range of green mortgage products has been introduced, with plans to introduce additional green products in the future. The Society has continued to drive progress through a Green Finance Working Group, which considers ways in which the Society can continue to improve its energy efficiency.
Regulators	As a regulated Financial Services firm, the Society recognises the need to maintain an open and transparent relationship with the regulatory authorities, namely the FCA and PRA.	Key regulatory matters are covered within the material provided to the Board on a monthly basis. The Society undertakes regular dialogue with the regulators, ensuring that all principal risks and other matters are covered as part of these ongoing conversations. Regulatory "horizon scanning" is undertaken, whereby upcoming regulatory reporting changes are identified, assessed and addressed as part of the Society's monthly regulatory reporting framework.

Other matters

Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. Trade creditor days at 31 March 2022 amounted to 8 days (2021: 7 days).

Donations

During the year, charitable donations totalling £5,241 (2021: £4,363) were made. There were no donations for political purposes.

Employees

The Society aims to attract and retain appropriately qualified and experienced employees to ensure its Corporate Plan can be delivered in addition to excellent customer service.

The Society actively supports employees engaged in professional qualifications, offering assistance with course and examination fees and providing paid periods for study and exam leave. The Society takes seriously the need for all of our employees to be aware of regulations to which we are subject, and all are required to attest to a number of the Society's policies on an annual basis.

Auditor

During 2019 the Society tendered for external audit services resulting in the appointment of PwC LLP. The process was led by the Audit and Compliance Committee who recommended the appointment to the Board. The Board is recommending that PwC LLP are re-appointed as external auditors of the Society for the 2022/23 year-end. A resolution for their appointment will be proposed to the forthcoming AGM of the Society.

Going Concern

The Directors are required to consider whether the Society will continue as a going concern for a period of not less than twelve months from the date of signing the accounts. In making the assessment, the Directors have reviewed the Society's corporate plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed, but plausible, operating conditions. A range of sensitivities have also been applied to these forecasts, including stress scenarios relating to macro-economic indicators. Having reviewed these forecasts alongside the Society's ICAAP and ILAAP documents the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

This statement does not represent a guarantee as to the Society's ability to continue as a going concern indefinitely, because it is not possible to predict all future events or conditions. Based upon the assessments undertaken for the purpose of the going concern review, the Directors are confident that the Society will continue to be able to operate as a going concern for at least the next three years.

Events since the year end

The Directors consider there has been no other event since the end of the financial year which would have a material effect on the financial position of the Society as disclosed in the Annual Accounts.

Pillar 3 disclosures

Under Basel II Pillar 3 the Society is required to publish additional disclosures regarding its capital position and exposures. The Society's Pillar 3 Disclosures are published on the Society's website dudleybuildingsociety.co.uk

On behalf of the Board of Directors

Claire Hyde
Society Secretary
31 May 2022

Corporate Governance Report
for the year ended 31 March 2022

Chairman's Statement

The UK Corporate Governance Code ("the Code") outlines the standards a board of directors should apply to promote the purpose, values and future success of a business. It places emphasis on relationships between companies, shareholders and stakeholders, and promotes the importance of establishing a corporate culture that is aligned with business strategy, promotes integrity and values diversity.

Although the Code is primarily aimed at listed companies, your Board is committed to operating in line with best practice standards of corporate governance. For this reason, your Board chooses to have regard for the Code in so far as possible and relevant to building societies, and to the extent deemed reasonable and appropriate when establishing and reviewing corporate governance arrangements.

This report details each Principle of the Code and explains how your Board has applied them. As your Chairman, I am extremely proud to lead a Board that is committed to the highest standards of corporate governance, and I hope this report gives you insight as to how your Board ensures the Society is sustainable well into the future.

Section 1: Board Leadership and Company Purpose

Principle 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.

The role of the Board is to promote the success of the Society for the benefit of current and future generations of members, therefore promoting long-term sustainability. This is achieved by determining a strategy, risk management approach and establishing policies – as well as overseeing their implementation – which ensure adherence to regulatory rules and guidance, legislative requirements, and the Society's Rules.

The Board holds five key responsibilities – Strategy, Performance, Risk, Governance, and People and Culture – which form the agenda for each Board meeting. The effectiveness of how these responsibilities are discharged is assessed internally on an annual basis, and externally by an experienced third-party at least every three years. The last external review was conducted by Clare Chalmers Ltd in January 2021. The Board has considered all recommendations and acted on those deemed appropriate to improve effectiveness and align with best practice. For example, Board committee membership has been adjusted in line with the recommendations. The Board's effectiveness is also demonstrated by the Society's performance in an environment where appropriate and constructive challenge is encouraged.

In accordance with its Terms of Reference, the Board meets at least six times each year. A Strategy Day is scheduled each year in which the Society's overarching principles of strategic intent are discussed, debated and consolidated. The events of the Strategy Day inform the annual Corporate Plan which comprises lending and funding approaches, considers risk appetite, and details a series of key strategic initiatives to ensure long-term sustainability.

In ensuring the sustainability of the Society's business model, the Board has identified several key challenges. Uncertainty in respect of the medium- to long-term effects of the pandemic has been compounded by the increasing rate of inflation – with the Bank of England increasing its Base Rate in December 2021 for the first time since 2018. Technological advancements continue at pace with "hybrid-working" becoming the norm for many, and global issues such as climate change remain prominent.

The Board has ensured the Society's strategy will mitigate these risks by optimising its capital position, focusing on system modernisation and the customer experience, and continuing to develop propositions for underserved markets. To fund this activity, the Society will continue to seek retail funding as its predominant source of funds, extending its offering to a variety of difference channels to suit member needs.

The Board understands – as a mutual - that generating value and contributing to wider society goes far beyond financial statements. For the second consecutive year, the Board has reflected climate change within one of its key objectives and is dedicated to demonstrating social responsibility via the promotion of green finance and the reduction of the Society's carbon footprint. This is in addition to a Board-approved Corporate Social Responsibility Approach and a "Giving Back" community initiative which focuses on employee volunteering, financial education and fraud awareness campaigns.

The Board recognises that long-term value is created through deploying effective people. The Society believes strongly in investing in its people and providing opportunities for personal and professional development to attract and retain the appropriate talent to deliver its strategy and corporate plan.

Principle 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.

The Chairman is responsible for leading the development of the Society's culture, facilitating and encouraging effective contribution and productive challenge from directors, and maintaining constructive relations between the Non-Executive and Executive Directors. "Culture" is one of the Board's key responsibilities; this is reflected in the Society's purpose, vision and values and is embedded via a "top-down" approach to deliver a long-term sustainable strategy. The Society's values are reflective of its culture: member focused, future facing, passionate and specialist.

The Board has considered the purpose of the Society outside of its statutory definition and has determined that its purpose is "to find solutions where others can't". The Society is committed to delivering a positive customer experience and impeccable customer service, promoting transparency and ensuring decisions are made for the benefit and in the best interests of its members.

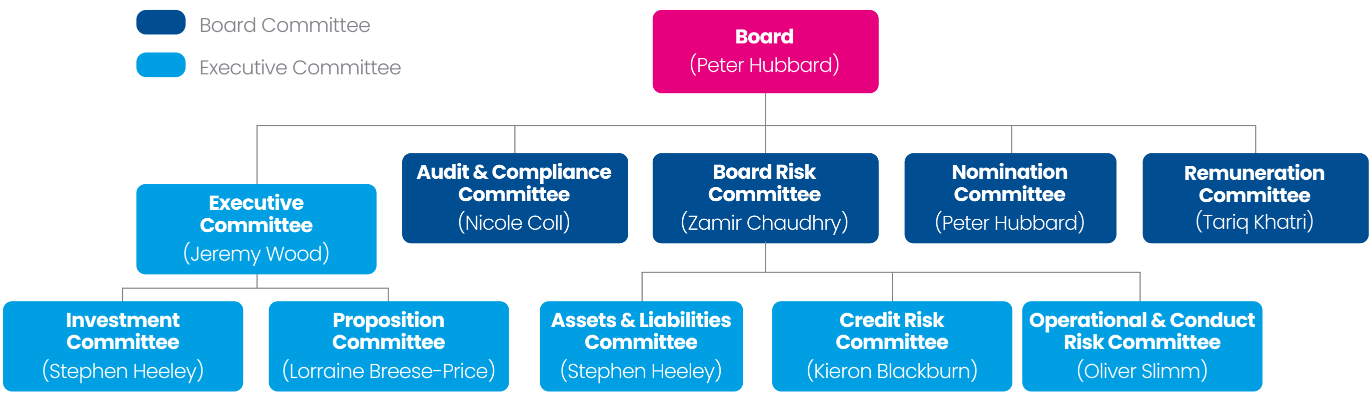
Principle C –

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.

Key objectives are devised to support delivery of the Society's Strategy and Corporate Plan. To complement each objective, a series of key strategic initiatives are developed to monitor and measure performance, and to ensure that the Society has sufficient resources to enable delivery of the plan by the Executive Directors and Senior Management Team.

Resources such as management information, dashboards, reports, policies and processes enable the Board to execute its responsibilities in respect of performance, governance and risk management oversight. This is achieved via an established governance framework in which the Board can delegate certain matters to its Sub-Committees and Executive Committees which permits information to be escalated and / or cascaded to the appropriate forum.

The Society's Committee Structure



The name in brackets is the Chair of each Committee as at 31 March 2022
Each Committee has a dotted line report into the Board Risk Committee

Board Committees

Audit and Compliance Committee

The Committee's principal function is to ensure that the interests of the Society's members are protected in relation to financial reporting and internal controls. The Committee considers financial controls and reporting, internal and external audit arrangements, and maintains oversight of the Society's second line of defence. The Committee meets at least four times each year. Every three years, a full review of internal and external audit provision is conducted.

Membership comprises three Non-Executive Directors: Nicole Coll (Chair), Zamir Chaudhry and Tariq Khatri. The Executive Directors, representatives from Internal and External Audit and the Chief Risk Officer attend by invitation. It is a requirement for at least one member of the Committee to have recent and relevant financial experience; this requirement is fulfilled by the Chair.

Full details can be found in the Audit and Compliance Committee Report on page 39.

Board Risk Committee

The principal function of the Committee is to assist the Board in fulfilling its oversight responsibilities for risk management. This is achieved by overseeing the implementation, embedment and continual improvement of the Society's Enterprise Risk Management Framework. The Committee reviews the Chief Risk Officer's report which provides an assessment of key issues, risks and emerging risk themes through regular horizon-scanning activity.

Membership comprises four Non-Executive Directors: Zamir Chaudhry (Chair), Nicole Coll, Joanna Baldwin and Tariq Khatri. The Executive Directors and the Chief Risk Officer attend by invitation. The Committee meets at least four times each year.

The Committee's main responsibilities are:

- to provide oversight of the Society's risk profile and its operation within Board-approved risk appetite, considering risk matters and emerging risks identified and escalated from both Executive and Board Committees, and escalating, where necessary, to the Board;
- to provide oversight of, and challenge to, the risk management and oversight arrangements of the Executive Directors and Senior Management Team to promote and maintain a supportive risk culture; and
- to ensure capital and liquidity resources are maintained to ensure regulatory compliance and achievement of the Corporate Plan.

Nomination Committee

The Committee has responsibilities relating to the structure, skillset, composition and effectiveness of the Board and its committees, as well as reviewing succession planning for both Non-Executive and Executive Directors. The Committee reviews the structure, size and composition of the Board, evaluating skills, knowledge and experience and, when required, nominates candidates (for election and re-election) to fill Board vacancies. The Committee has due regard for the benefits of diversity, inclusion and equality, and its responsibility to ensure continued fitness and propriety of Senior Management Function holders.

The Committee meets at least once each year and membership comprises all Non-Executive Directors and the Chief Executive. Peter Hubbard – as Society Chairman – is also Chair of the Nomination Committee. The Chairman does not participate in matters regarding his re-appointment, or the appointment of his successor.

Remuneration Committee

The Committee meets at least twice each year and is responsible for setting the over-arching principles of the remuneration policy such that they support the long-term success of the Society and attract, retain and motivate directors and senior management of the quality required to achieve the Corporate Plan. Membership comprises three Non-Executive Directors: Tariq Khatri (Chair), Nicole Coll and Joanna Baldwin. The Chief Executive and Finance Director attend by invitation. No director is involved in decisions regarding their own remuneration.

Full details can be found in the Directors' Remuneration Report on page 42.

Executive Committees

Assets and Liabilities Committee

The principal function of the Committee is to manage the structure of the Society's assets and liabilities. It has specific responsibilities for liquduity, funding, counterparty credit, interest rate and capital risk management. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Head of Planning, Information and Prudential and Products Manager, with the Chief Risk Officer attending by invitation. The Finance Director (Stephen Heeley) is Chair.

Credit Risk Committee

The principal function of the Committee is to manage the Society's lending strategy and policy in accordance with risk appetite set by the Board. The Committee monitors the quality and profile of its mortgage portfolio in accordance with regulatory lending limits and conducts regular stress and scenario tests to identify and manage potential credit risk exposure. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Head of Credit Risk and Underwriting, and Head of Operations, with the Chief Risk Officer attending by invitation. The Interim Commercial Director (Kieron Blackburn) is Chair.

Executive Committee

The principal function of the Committee is to implement and deliver the Strategy and Corporate Plan in accordance with the Society's purpose, vision and values. The Committee oversees day-to-day operations with focus on performance, cost management and people and culture, as well as reviewing matters which are to be presented to the Board and / or its Sub-Committees.

The Committee meets at least once each month, and membership comprises the Executive Directors and Senior Management Team. The Chief Executive (Jeremy Wood) is Chair.

Investment Committee

The principal function of the Committee is to review requests for investment and, where there is sufficient and appropriate business justification for the spend, allocate the Society's Investment Budget. Matters raised are escalated to the Executive Committee.

The Committee meets at least six times each year. Membership comprises the Finance Director, Interim Commercial Director, Head of Operations and Head of IT and Cyber Security. The Finance Director (Stephen Heeley) is Chair.

Operational and Conduct Risk Committee

The principal function of the Committee is to manage and oversee the identification, impact and mitigation of operational and conduct risks to ensure the Society continues to have robust controls, processes and systems in place, and operates a framework that is focused on the delivery of fair customer outcomes. Matters raised are escalated to the Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Chief Executive, Interim Commercial Director, Head of Operations, Head of Credit Risk and Underwriting, Head of Compliance and Financial Crime, Head of IT and Cyber Security, Head of Employee Experience and Organisational Development and Products Manager, with the Head of Risk and Governance attending by invitation. The Head of Credit Risk and Underwriting (Oliver Slimm) is Chair.

Proposition Committee

The principal function of the Committee is to oversee product-related performance – with particular focus on margin management – against the Society's proposition, product and pricing strategy, and to consider key drivers such as competitor analysis and market data. Matters raised are escalated to the Board and / or Board Risk Committee.

The Committee meets at least ten times each year. Membership comprises the Executive Directors, Head of Operations, Head of Planning, Information and Prudential, Head of Credit Risk and Underwriting, Head of Compliance and Financial Crime and Products Manager, with the Head of Risk and Governance attending by invitation. The Head of Operations (Lorraine Breese-Price) is Chair.

General Board and Committee Matters

Minutes are the responsibility of the Society Secretary. All minutes are reviewed by the relevant Committee / Board and are approved on the basis of accuracy.

Board and Committee Terms of Reference are available on the Society's website and can be obtained from the Society Secretary. Terms of Reference are subject to annual review and approval to ensure responsibilities remain aligned to strategy and regulatory and legislative requirements.

Principle 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.

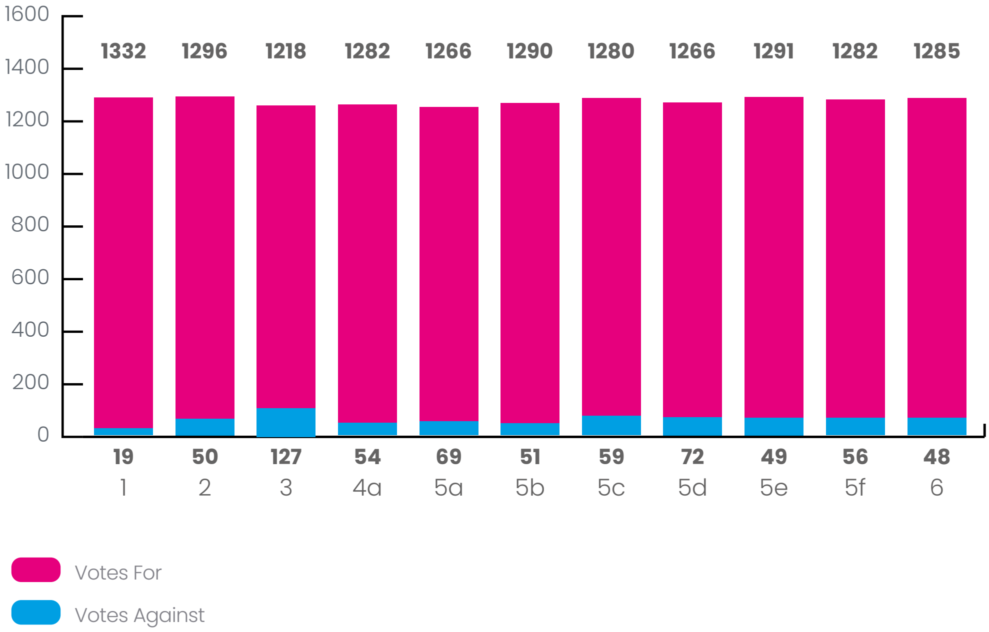
As a mutual organisation, the Society is owned by its members. Engagement and communication is achieved via regular newsletters, social media activity and surveys – particularly Smart Money People – in which members are encouraged to leave feedback.

Survey results are reviewed by the internal Member Focus Forum, the Executive Committee and the Board to better understand and identify member needs and areas of improvement.

Each year, details of the AGM and a copy of the Society's Member Review is sent to all eligible voting members. The Member Review contains statements from the Chairman and Chief Executive, reflects on activity in the community and addresses topical issues such as cyber security and scam awareness. Members are encouraged to use their vote and submit questions to the Board. A charitable donation is made for each vote cast.

Corporate Governance Report (continued)

AGM Results –July 2021



Ordinary Resolutions

1. To receive the Directors' Report, Annual Accounts and Annual Business Statement for the year ended 31 March 2021

2. To re-appoint PricewaterhouseCoopers LLP (PwC) as Auditors

3. To approve the Directors' Remuneration Report for the year ended 31 March 2021

4a. To elect Joanna Rosamund Ann Baldwin

5a. To re-elect Zamir Ahmad Chaudhry

5b. To re-elect Nicole Coll

5c. To re-elect Peter John Hubbard

5d. To re-elect Tariq Khatri

5e. To re-elect Samantha Ann Ward

5f. To re-elect Jeremy Robin Wood

6. Special Resolution
To approve the amendments to the Society's Rules

The Board is committed to maintaining and promoting an honest, open and transparent relationship with the regulator and its internal and external auditors. This is achieved by disclosing and submitting all required information within the timeframes allocated as well as ensuring all parties are informed of developments regarding succession planning, compliance with regulatory and legislative matters, and any recommendations made as part of routine audits.

Engagement with colleagues is of the utmost importance as the impact of the pandemic in respect of working arrangements and environments continues to be felt. In addition to weekly newsletters, engagement surveys and events, Non-Executive Directors have participated in virtual "Question and Answer" and "Getting to Know You" sessions with colleagues to discuss their background and experience within the financial services industry.

Principle 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.

The Society's Whistleblowing and Anti-Bribery and Corruption Policy promotes a "speak up" culture and ensures colleagues can raise concerns without fear of victimisation to the Whistleblowers' Champion. In addition, colleagues can report to alternate individuals to avoid any conflicts of interest.

The Board approves employee-related policy documents relating to performance management, remuneration and whistleblowing to ensure consistency with the Society's values. The Society has a grievance policy and also circulates regular employee engagement surveys. Anonymous survey results are reviewed, discussed and addressed by the Senior Management Team and the Board.

Section 2: Division of Responsibilities

Principle 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.

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating and encouraging effective contribution and constructive challenge. The Chairman is responsible for maintaining constructive relations between the Non-Executive and Executive Directors, and ensuring accurate, timely and clear information is received.

The Board has satisfied itself that the Chairman meets the criteria set out in the Code.

Principle 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.

The offices of the Chairman and the Chief Executive are entirely separate. The Chairman is responsible for leading the Board, and the Chief Executive leads in an efficient and effective manner to achieve the Society's objectives.

The Board comprises five Non-Executive Directors – all of whom are considered independent in character and judgement – and three Executive Directors. All directors provide a wide range of skills and experience which complements strategy and covers all areas of the Society. The Chairman promotes a culture of effective and constructive contribution and challenge, ensuring all directors have the opportunity to contribute to discussions and decisions.

Principle 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.

During recruitment, the Board will consider a potential candidate's background, skills and expertise to ensure the Non-Executive Directors can provide constructive challenge and an appropriate level of support to the Executive Directors and Senior Management Team.

A full account of existing commitments and demands must be disclosed, and the Nomination Committee is responsible for determining whether a potential candidate is able to commit the time required for the role. Time commitments are confirmed prior to appointment. Executive Directors cannot be appointed to the board of any other organisation without the approval of the Society's Board.

As part of the approval process, the Chairman will assess the time commitment made by each Non-Executive Directors. The attendance record of each Director is on page 38.

At least once each year, the Non-Executive Directors meet without the Executive Directors present to discuss performance against the Corporate Plan and agreed objectives.

Principle I –
The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs to order to function effectively and efficiently.

The Society Secretary provides support and guidance on corporate governance arrangements, and all directors have access to independent advice, if required, in order to effectively discharge their responsibilities. Directors can access paper, minutes, management information, policies and training material via the Society's Board Portal.

Non-Executive Directors are responsible for evaluating the effectiveness of management information, and for suggesting improvements to ensure information provides sufficient oversight of business activities, enables informed decision-making, and allows responsibilities to be effectively discharged.

The Chairman, in consultation with the Executive Directors, provides a formal induction for Non-Executive Directors tailored to their needs.

The Chairman ensure that Non-Executive Directors continually update their skills and knowledge to fulfil their role and responsibilities. Learning and development needs are identified during the annual appraisal process and are regularly reviewed and discussed by the Nomination Committee. Directors are encouraged to attend industry seminars and conferences, and the Society Secretary is responsible for scheduling and arranging quarterly Board Training Sessions. During 2021/22, these sessions covered capital and liquidity management, climate change, cyber risk and controls, cryptocurrency and operational resilience.

Corporate Governance Report (continued)

Section 3: Composition, Succession and Evaluation

Principle 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.

The Nomination Committee leads the process for appointments and is responsible for succession planning. Directors are recruited from a wide range of backgrounds to obtain the necessary skills and experience, and the Board recognises the importance of promoting a culture of inclusion, equality and diversity.

Directors and members of the Senior Management Team contribute to a skills matrix which comprises a subjective and objective assessment of skills in core subject matters which support delivery of the Corporate Plan. The matrix provides a holistic view of strengths and capabilities which is considered during the appointment and succession planning process to ensure candidates complement and enhance composition.

The procedure for appointing directors to the Board includes preparing a role specification, advertising, and an interview with the Chairman and other directors. During 2021/22, an independent, executive recruitment consultant – Thorburn McAlister – was engaged to source suitable candidates. During the process, monthly updates were presented to the Nomination Committee to ensure transparency.

Each director must obtain the necessary regulatory approval and meet prescribed fitness and propriety standards.

Principle 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.

In accordance with the Society's Rules, all directors are required to submit themselves for election / re-election at the AGM. Members are provided with biographical details in order to make an informed decision. The Chairman and Deputy Chair are elected by the Board following the conclusion of the AGM. The Board current policy is that Non-Executive Directors should not normally serve for more than nine years. Following the conclusion of the 2021 AGM, Paul Doona retired following a tenure of just over nine years on the Society's Board.

The Nomination Committee considers whether directors are independent in character and judgement and are able to commit sufficient time to their role. The skills matrix ensures that an appropriate combination of skills and experience can be demonstrated.

Principle 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.

Board effectiveness is assessed internally on an annual basis and externally, at least, every three years. The last external review was conducted by an independent party – Clare Chalmers Ltd – in January 2021.

The performance of the Chairman is appraised annually by the Senior Independent Director. All Non-Executive Directors and the Chief Executive are subject to semi-annual performance reviews conducted by the Chairman. The Chief Executive conducts appraisals for the Finance Director and Interim Commercial Director in accordance with the performance management policy.

Section 4: Audit, Risk and Internal Control

Principle 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.

The Audit and Compliance Committee is a Board Committee in which membership comprises three independent Non-Executive Directors. Meetings are attended by the Executive Directors, Chief Risk Officer and Internal and External Audit representatives. The Internal and External Auditors meet with the Non-Executive Directors on an annual basis.

Membership, responsibilities and meeting frequency are detailed on page 32.

The Audit and Compliance Committee Report explains how the committee discharges its responsibilities in respect of financial and internal controls and reporting, and how internal and external auditor relationships are maintained. The report can be found on page 39.

Principle N –
The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Directors' responsibilities in relation to preparation of the accounts can be found on page 44, and the statement that the Society's accounts are prepared on the going concern basis can be found on page 29.

The Board is of the opinion that the annual report and accounts present a fair, balanced and understandable assessment of the Society's position, and provides the necessary information for members to assess performance, strategy and business model.

Principle 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.

The Board is responsible for determining strategies for risk management and internal control, setting risk appetite, and identifying the principal risks that could threaten performance, strategy and sustainability. The Executive Directors and Senior Management Team are responsible for designing, operating, monitoring and embedding risk management controls and systems.

The Society has a second line Governance, Risk and Compliance team – headed by the Chief Risk Officer – which provides challenge and oversight of first line risk management activity.

The Board Risk Committee assesses the adequacy of controls and systems and reports to the Board. Membership, responsibilities and meeting frequency are detailed on page 32.

The Society's internal auditors provide independent and objective assurance that systems are appropriate, and controls are operating effectively.

The Board has reviewed the effectiveness of risk management systems and controls and has concluded that the Society has a strong compliance culture and that systems are effective and appropriate to the scale and complexity of the business and to protect the interests of its members.

Section 5: Remuneration

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

When setting remuneration, the objective is to ensure alignment with strategy, risk appetite and the corporate plan by being consistent with the interests of members. The remuneration policy is designed to reward directors according to their expertise, experience and overall contribution to the successful performance of the Society. Remuneration of executive directors is reflective of roles and responsibilities. Remuneration is set at a level to attract and retain the appropriate talent to deliver the Society's Corporate Plan.

The Directors' Remuneration Report on page 42 explains how the Society complies with the principles relating to remuneration.

Principle Q –
A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

The Remuneration Committee reviews the Society's remuneration policy at least annually. No director is involved in decisions regarding their own remuneration.

The Directors' Remuneration Report on page 42 explains how the Society complies with the principles relating to remuneration.

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

Basic salaries are reviewed annually, supported by an external benchmarking exercise which takes place every three years. The Executive Directors' benefit package is designed to motivate decision making in the interests of members.

As part of its approach to mitigate conduct risk exposure, bonuses and incentives linked to sales performance or lead generation are not awarded to any directors or employees.

Corporate Governance Report (continued)

Directors' Attendance Record

	Board	Audit & Compliance	Board Risk	Remuneration	Nomination
Non-Executive Directors					
Peter Hubbard	10(10)	4(5)A	4(4)A	3(3)A	2(2)
Nicole Coll	10(10)	5(5)	4(4)	3(3)	2(2)
Joanna Baldwin (Appointed 1 May 2021)	7(9)	2(4)A	4(4)	2(3)	2(2)
Zamir Chaudhry	10(10)	5(5)	4(4)	3(3)A	2(2)
Tariq Khatri	10(10)	5(5)	4(4)	3(3)	2(2)
Paul Doona (Retired 15 July 2021)	3(3)	2(2)	1(1)	–	1(1)
Executive Directors					
Jeremy Wood	10(10)	5(5)A	4(4)A	2(2)A	2(2)
Kieron Blackburn	8(8)	5(5)A	4(4)A	–	–
Stephen Heeley (Appointed 5 July 2021)	7(7)	3(3)A	3(3)A	1(1)A	–
Samantha Ward (Maternity Leave from 1 October 2021)	4(5)	2(2)A	1(2)A	–	–

Key: A - Attendee

The number in brackets represents the total number of meetings held during 2021/22 that the Director was eligible to attend.

Audit & Compliance Committee Report

The Audit and Compliance Committee is a Sub-Committee of the Board. Its principal function is to ensure that the interests of the Society's members are protected in relation to financial reporting and internal controls. The Committee is authorised by the Board to:

- Investigate any activity within its Terms of Reference;
- Seek any information that it requires from any employee of the Society, for which purpose all employees are directed to co-operate with any request made by the Committee; and
- Obtain external legal or independent professional advice at the Society's expense.

The Committee meets at least four times each year and comprises three independent Non-Executive Directors: Nicole Coll (Chair), Zamir Chaudhry and Tariq Khatri. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. Other regular attendees at meetings include the Executive Directors, the Chief Risk Officer, the Head of Risk and Governance, the Head of Compliance and Financial Crime and the Financial Controller. Representatives from RSM Risk Assurance Services LLP, the Society's outsourced internal auditor, and PricewaterhouseCoopers LLP, the Society's external auditor attend by invitation.

At least once each year, the Non-Executive Directors meet with the internal and external auditors without the Executive Directors present. In addition, the Chief Risk Officer has direct access to the Chair of the Audit and Compliance Committee and will meet with the Chair at least annually without the Executive Directors present.

The Committee approves the instruction of the internal and external auditors to carry out any non-audit assignments. Every three years a full review of internal and external audit provision is carried out.

Financial Controls and Reporting

The main responsibilities of the Committee are to:

- Review and challenge, where necessary, the actions and judgements of management, in relation to the Society's financial statements, summary financial statement and the operating and financial statement and the operation and financial review before submission to – and approval by – the Board, and before clearance by the auditors. Particular attention is paid to:
  - The integrity of the financial statements and any formal announcements relating to the Society's financial performance;
  - Critical accounting policies and practices;
  - Decisions requiring significant elements of judgement; and
  - Whether the financial statements taken are fair, balanced and understandable.

System of Internal Control

The Society has in place internal controls and an enterprise risk management framework to safeguard its members and the Society's assets. The Committee is responsible for reviewing the effectiveness and appropriateness of these controls.

The following aspects were reviewed by the Committee during the year:-

- Control assurance reports authored by the second line of defence;
- Compliance monitoring results;
- Risk appetite reporting in respect of compliance, financial crime and legal risk appetite;
- The Society's policies on:
  - Compliance Approach;
  - Finance and Banking Operations;
  - Financial Crime;
  - Fitness and Propriety;
  - General Data Protection;
  - Gifts and Hospitality;
  - Procurement and Outsourcing;
  - Regulatory Reporting; and
  - Whistleblowing and Anti-Bribery and Corruption.

The Committee gave assurance to the Board that there were no material breaches of control or regulatory compliance during the year.

Audit & Compliance Committee Report (continued)

Internal Audit

The Committee is responsible for monitoring and reviewing the independence and effectiveness of the Society's internal audit function and the adequacy of resources. The Society has outsourced its internal audit work to RSM Risk Assurance Services LLP.

Prior to the start of each corporate year, the Committee approves the Internal Audit Plan. Interim progress reports alongside scheduled individual internal audit reports are presented at each meeting for review, discussion and challenge. A report covering the annual audit cycle is presented following the conclusion of each corporate year. The report provides an opinion in respect of the overall adequacy and effectiveness of the control environment and governance processes.

During 2021/22, the internal audit plan covered the following areas:

- Climate Change;
- Cyber Risk Management;
- Financial Risk Management;
- Model Governance;
- Mortgage Underwriting and Processing;
- Payment Processing;
- Product Governance;
- Prudential Data Mapping;
- Regulatory Reporting;
- Savings Administration; and
- Strategy and Planning.

The Committee is satisfied that internal audit had an appropriate level of resource in order to deliver its 2021/22 plan and that it discharged its responsibilities effectively.

External Audit

The Committee, on behalf of the Board, conducts a thorough review of the provision of external audit services every three years. In October 2019, PricewaterhouseCoopers LLP was appointed to cover the external audit provision for the Society. It is expected that the next review will take place in mid-2022. The Committee evaluates and approves the scope and content of the external audit plan and approves the level of fees. It monitors the effectiveness, resources, competency and independence of the external auditor and is satisfied in these matters.

Regulation and Compliance

The main responsibilities of the Committee are to:

- Consider and report to the Board the effect of any statutory, regulatory or financial reporting changes, or corporate governance issues, which may affect the content and presentation of the Society's accounts, its systems of control and any other matters relating to the direction of the Society;
- Assess the adequacy of resource and skillset of those involved in independent compliance monitoring as well as instructing the compliance function to carry out specific review of any area of operations causing concern to the Committee;
- Maintain oversight of actions that have been allocated to the first line of defence following a compliance or risk assessment conducted by the second line of defence;
- Approve and monitor progress of the annual Combined Assurance Plan, taking into account the risk assessment of each area of the business; and
- Review the Society's policies and processes for detecting and preventing bribery, corruption and fraud.

There are two management committees which provide the Audit and Compliance Committee with additional assurance in respect of regulatory matters.

Regulatory Reporting Committee

The Regulatory Reporting Committee oversees regulatory reporting and provides governance over judgements and assumptions utilised as part of the reporting process. The committee is chaired by the Finance Director who submits a semi-annual report to the Audit and Compliance Committee to ensure effective oversight of the internal control framework applied to regulatory reporting.

Regulatory Review Committee

The Regulatory Review Committee facilitates the implementation of regulatory change across the Society by ensuring change is identified, impact assessed and escalated to the appropriate committee for oversight. Updates are provided at each Audit and Compliance Committee via management information.

Audit and Compliance Committee Effectiveness

In accordance with its Terms of Reference, the Committee regularly reviews its own performance, composition and responsibilities to ensure it is operating at maximum effectiveness. Any changes considered necessary are escalated to the Board for approval.

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:

Impairment losses on loans and advances to customers

The Committee reviewed the amount of provision for impairment losses held by the Society. The Committee challenged the underlying assumptions and the economic scenarios, particularly in relation to the high levels of inflation that are present in the UK economy. This process included reviews of key input assumptions. These were:

- Consideration of the current economic environment, particularly in relation to the high levels of inflation that are present in the UK economy at the balance sheet date and the resultant cost-of-living squeeze that will restrict the money available to borrowers to meet their debt repayments; and
- Considering the amount by which the UK Government's financial support to borrowers during the COVID-19 pandemic may have artificially improved the payment performance of the mortgage book and as result understated the PD of mortgages held at 31 March 2022. An adjustment has been incorporated in the model to reflect this; and
- Reviewing the assumptions and judgements that were applied at the previous year end in respect of COVID-19 and house price uncertainty to check for validity.

It was agreed that previous assumptions and overlays in respect of COVID-19 and house price uncertainty could be removed as anticipated impacts did not materialise during the year.

The reviews also considered the results of stress tests under a range of economic scenarios as well as a benchmark against other relevant building societies. The Committee concluded that the amount of provision for impairment losses is appropriate. Further information on impairment losses is provided in Notes 1 and 14 to the Accounts.

Effective Interest Rate (EIR)

The Committee reviewed and approved the assumptions and methodology behind the model used to determine effective lives and EIR adjustments.

Going Concern

The Committee also reviewed and challenged management's assessment of going concern, including consideration of the results from stress testing activities. Based on its review, the Committee concluded that the adoption of the going concern assumption to prepare the financial statements remains appropriate.

These Financial Statements

On behalf of the Board, the Audit and Compliance Committee has ensured that these financial statements present a fair, balanced and understandable assessment of the Society's position and prospects.

Nicole Coll
Chair of the Audit and Compliance Committee
31 May 2022

Directors' Remuneration Report

The purpose of this report is to inform members of the Society's policy on the remuneration of Non-Executive and Executive Directors. The Society has adopted a remuneration policy which complies with the relevant elements of regulators' remuneration codes and facilitates a formal and transparent procedure in respect of determining remuneration.

The report also explains how the Society regards the principles of the UK Corporate Governance Code ("the Code") relating to remuneration. Section 5 of the Code notes the following three principles:

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

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

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

Remuneration Committee

The principal function of the Committee is to set the over-arching principles, parameters and governance framework of the Society's remuneration policy such that they support the long-term success of the Society and attract, retain and motivate directors and employees of the quality required to achieve its strategic initiatives and business objectives.

The Committee meets at least twice each year and membership comprises of three Non-Executive Directors: Tariq Khatri (Chair), Nicole Coll and Joanna Baldwin. The Chief Executive and Finance Director attend by invitation. No director or employee is involved in any decision about their own remuneration.

The main responsibilities of the Committees are to:

- Ensure that a transparent, stretching and rewarding performance management structure is in place, and provide oversight of this structure to ensure that it is applied rigorously and fairly;
- Ensure that the remuneration and benefits awarded are aligned with the Society's budget and consistent with industry standards; and
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Society and approve the total annual payments made under such schemes.

The Committee reviews director remuneration annually using data from comparable organisations and takes advice from external consultants when appropriate. Minutes of the meetings are distributed to all committee members and matters escalated to the Board as and when required.

Non-Executive Directors

Non-Executive Director fees are based on comparable data from similar financial services organisations and are considered in consultation with the Chief Executive. Remuneration comprises a basic fee with supplementary payments for Committee Chairs.

Non-Executive Director fees are not pensionable, nor do the individuals participate in any incentive schemes or receive any other benefits. Non-Executive Directors have formal contracts of service.

Details of Non-Executive Directors' remuneration can be found in Note 7 to the Accounts.

Executive Directors

The remuneration for Executive Directors reflects roles and responsibilities within the Society. The total emoluments package is set by the Remuneration Committee with constituent elements of salary and benefits being agreed between the Committee and the individual Director. Benefit packages are designed to motivate decision making in the interests of members.

Jeremy Wood, Stephen Heeley, Kieron Blackburn and Samantha Ward have service contracts dated 17 May 2012, 5 July 2021, 13 July 2021 and 3 February 2020, respectively. Twelve months' notice is required to be given by the Society to Jeremy Wood and six months' notice by the individual. Six months' notice is required to be given to Stephen Heeley and six months' notice by the individual. Kieron Blackburn is subject to a fixed term contract and requires three months' notice by the Society and three months' notice by the individual. Six months' notice is required to be given to Samantha Ward and six months' notice by the individual. There are no contractual arrangements in respect of bonuses, deferred consideration or amended arrangements in the event of a transfer of engagement.

Jeremy Wood, Stephen Heeley and Samantha Ward receive access to a healthcare cash plan, receive private healthcare cover and have access to an online portal offering a range of retail discounts. Stephen Heeley and Samantha Ward are enrolled into the Society's pension scheme and receive 11% employer contribution.

Details of Executive Directors' remuneration can be found in Note 7 to the Accounts.

Basic Salaries

Basic salaries are reviewed annually, supported by an external benchmarking exercise which takes place every three years.

As part of its approach to mitigate conduct risk exposure, bonuses and incentives linked to sales performance or lead generation are not awarded to any directors or employees.

Tariq Khatri
Chair of the Remuneration Committee
31 May 2022

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

The Building Societies Act 1986 ("the Act") requires the directors to prepare Society Annual Accounts for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under the Act, directors must not approve the Annual Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Building Societies Act 1986.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Peter Hubbard
Chairman
31 May 2022

Independent auditors' report to the members of Dudley Building Society

Report on the audit of the annual accounts

Opinion

In our opinion:

- Dudley Building Society's annual accounts (the "annual accounts") give a true and fair view of the state of the Society's affairs as at 31 March 2022 and of the Society's income and expenditure and cash flows for the year then ended;
- the annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the annual accounts have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Report and accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2022; the income statement and statement of comprehensive income, the statement of change in members' interest, and the cash flow statement for the year then ended; and the notes to the annual accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Compliance Committee.

Basis for opinion

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

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

Other than those disclosed in note 5 to the annual accounts, we have provided no non-audit services to the Society in the period from 1 April 2021 to 31 March 2022.

Our audit approach

Overview

Materiality	• £289,000 (2021: £259,000) • Based on 1% of Society's Net Assets
Scoping	• The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment of the operations of the Society. • Audit procedures were performed over all material account balances and financial information of the Society.
Key audit matters	• Impairment of loans and advances to customers.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in 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 in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Society and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- Review of internal audit reports in so far as they related to the annual report;
- Reviewing relevant meeting minutes including those of the Audit and Compliance Committee;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates (see key audit matter below); and
- Identifying and testing journal entries meeting certain risk-based criteria, including unusual or unexpected account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The impact of COVID-19, which was a key audit matter last year, is no longer included because we deem our consideration of this area in the current year to be adequately captured by our other key audit matter and not to represent an area of increased audit attention in its own right. The recognition of interest income, specifically, Effective interest rate ("EIR") accounting, which was a key audit matter last year, is no longer included because the costs deferred and methodology has not changed during this year and we consider the level of estimation uncertainty to have reduced to a normal level. Otherwise, the key audit matter below is consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers *Refer to note 1 for accounting policies and accounting judgements and estimation uncertainties and notes 14 and 27 for detailed disclosures around impairment provisions and credit risk.* *An impairment provision of £0.9m (2021:£1.2m) is recognised by the Society against loans and advances to customers. The loans and advances represent mortgages secured against residential property, commercial property or land.* *Management uses an impairment model to calculate the collective provision on an account level basis. This year, management has refreshed the underlying data and refined their methodology to calculate the Probability of Default (PD).* *Collective provisions capture the risk across the portfolio relating to impairment events which have been incurred but not yet reported at the balance sheet date.* *Specific provisions are determined by assigning a higher PD in the model to loans which meet certain risk criteria such as customers in arrears, customers who receive benefits from Department of Work and Pensions, out of term customers or customers with second charge over collateral.* *A management overlay of £540k (2021: £418k) has been booked to respond to the latent risks caused by inflationary pressure and to address the model weaknesses in relation to lack of historical default information.* *We consider the appropriateness of the model methodologies and the following judgements used in the determination of the provision to be significant:* *• The PD assigned to all accounts to determine a provision for identification of impairment events that have not yet emerged;* *• The increase in the PD given to higher risk customers as a result of an impairment trigger including customers who were identified as an at risk group;and* *• Management overlays applied on top of the modelled outcome as a result of additional risks such as inflationary pressures.* *Our audit work on the overlays was focused on the appropriateness of the management judgements and the supporting calculations along with the completeness of overlays observed.*	*We understood, evaluated and challenged the appropriateness of the key assumption used in determining impairment provisions, particularly PD, and we also evaluated the other assumptions that are being applied such as Housing Price Index (HPI) and Forced Sales Discount (FSD).* *For the PD applied to collective customers, we tested the updated methodology which assessed the customer risk profile by reference to the underlying historical arrears and debt to income banding data. We tested the refined methodology to formulate the initial PDs and the specific provision scalars applied to the PDs with support from our internal specialists.* *We tested the historical experience of the Society for the FSD used in the model. We assessed the management judgement to use the Q4 2021 HPI data within the provision due to timing of the annual accounts.* *We performed testing to ensure that loans meeting the defined higher risk criteria have been captured within the specific provision.* *We undertook sensitivity analysis on the Society's impairment model to assess the impact of adopting different assumptions in relation to PD and other assumptions (HPI and FSD) which could be considered reasonable based on our industry experience and knowledge.* *We tested the completeness and accuracy of underlying data used in the impairment calculations.* *We performed testing to assess that loans meeting the defined risk criteria had been captured in the assessment of specific provisions. We assessed the reasonableness and recalculated the PD by comparing it with historic experience. We also performed sensitivity analysis to assess the degree of change required in those assumptions to result in material movements in the specific provision.* *We assessed the appropriateness and completeness of the management overlay through assessing latent risk using our industry knowledge and experience. We assessed the rationale for those used by management, and undertook sensitivity analysis over the key assumptions to determine whether the overall adjustment is reasonable.* *We reviewed the impairment and sensitivity analysis disclosures made by management in the annual accounts to ensure compliance with accounting standards and agreed the disclosures to supporting evidence without material exceptions.* *We concluded that the impairment provisions were reasonable.*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Society, the accounting processes and controls, and the industry in which it operates.

All of the Society's activities are in the United Kingdom with a single line of business being the provision of mortgages and savings products to the members and other customers. The accounting records for the Society are located at the Society's principal office in Dudley.

Audit procedures were performed over all material account balances and financial information of the Society.

All the audit procedures were conducted remotely due to ongoing COVID-19 protocols at the Society and were performed by a single audit team. We did not require involvement of any component auditors.

The audit procedures performed provided us with sufficient audit evidence as a basis for our opinion on the Society's annual accounts as a whole.

Materiality

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

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

Overall materiality	£ 289,000 (2021: £ 259,000).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	The Society's principal activity is the provision of long-term residential mortgages to borrowers, financed by personal savings from members. The strategy is not one purely of profit maximisation but to provide a secure place for customer investments in a mutual environment. Therefore, we base our materiality calculation on net assets, as an appropriate benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £216,000.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Compliance Committee that we would report to them misstatements identified during our audit above £14,000 (2021: £12,900) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates. As part of our risk assessment, we reviewed and considered the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;

- Evaluation of the reasonableness of the Society's corporate plans, covering a period up to March 2025, including testing key assumptions and performance of sensitivity analysis using our understanding of the Society and its financial and operating performance obtained through the course of our audit. We have also considered the historical accuracy of previous corporate plans as part of this assessment;

- Evaluation of the Society's access to the Bank of England funding facilities; and
- Testing of the appropriateness of the disclosures made in the Annual report and accounts.

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 the date on which the annual accounts are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

Annual Business Statement and Directors' Report

In our opinion, based on our 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 year ended 31 March 2022 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, 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.

Auditors' responsibilities for the audit of the annual accounts

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Compliance Committee, we were appointed by the directors on 19 September 2019 to audit the annual accounts for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2020 to 31 March 2022.

Ajay Kabra (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
31 May 2022

Income Statement

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £000s	2021 £000s
Interest receivable and similar income	2	14,637	14,903
Interest payable and similar charges	3	(3,350)	(4,225)
Net interest receivable		**11,287**	**10,678**
Fees and commissions receivable		65	68
Fees and commissions payable		(207)	(150)
Other operating income		10	4
Total operating income		**11,155**	**10,600**
Fair value gains on financial instruments	4	137	57
Total income		**11,292**	**10,657**
Administrative expenses	5	(8,163)	(8,307)
Depreciation and amortisation	17, 18	(462)	(441)
Operating profit before impairment losses and provisions		**2,667**	**1,909**
Impairment gains on loans and advances	14	239	302
Profit before tax		**2,906**	**2,211**
Tax expense	8	(642)	(427)
Profit for the financial year	**26**	**2,264**	**1,784**

The notes on pages 57 to 99 form part of these accounts. The above results are all derived from continuing operations.

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2022

	2022 £000s	2021 £000s
Profit for the Financial Year	**2,264**	**1,784**
Other Comprehensive Income		
Items that may subsequently be reclassified to Profit or Loss		
Available for Sale investments		
Unrealised gains on debt securities	13	5
Other comprehensive income for the financial year net of tax	13	5
Total comprehensive income for the financial year	**2,277**	**1,789**

Statement of Change in Members' Interests

FOR THE YEAR ENDED 31 MARCH 2022

2022	**General Reserves** £000s	**Available-for-Sale Reserve** £000s	**Total** £000s
Balance as at 1 April 2021	26,739	(17)	26,722
Profit for the year	2,264	–	2,264
Other Comprehensive Income for the year (net of tax)	–	13	13
Transfer to general reserve on maturity	(4)	4	–
Total Comprehensive Income for the year	**2,260**	**17**	**2,277**
Balance as at 31 March 2022	**28,999**	**-**	**28,999**

2021	£000s	£000s	£000s
Balance as at 1 April 2020	24,955	(22)	24,933
Profit for the year	1,784	–	1,784
Other Comprehensive Income for the year (net of tax)	–	5	5
Total Comprehensive Income for the year	**1,784**	**5**	**1,789**
Balance as at 31 March 2021	**26,739**	**(17)**	**26,722**

The notes on pages 57 to 99 form part of these accounts. The above results are all derived from continuing operations.

Statement of Financial Position

AS AT 31 MARCH 2022

	Note	2022 £000s	2021 £000s
Assets			
Liquid Assets			
Cash in hand and balances with the Bank of England	9	101,254	94,282
Loans and advances to credit institutions	10	7,642	11,575
Debt securities	11	-	10,399
		108,896	**116,256**
Derivative financial instruments	12	1,442	65
Loans and advances to customers			
Loans fully secured on residential property	13	409,793	405,431
Other loans - loans fully secured on land	13	680	749
		410,473	**406,180**
Other debtors	16	529	515
Tangible fixed assets	17	979	1,151
Intangible fixed assets	18	1,624	1,574
Total Assets		**523,943**	**525,741**
Liabilities			
Shares	20	444,707	446,416
Amounts owed to other customers	21	48,365	49,885
		493,072	**496,301**
Derivative financial instruments	12	-	1,328
Other liabilities	22	778	578
Deferred tax liability	19	405	308
Accruals and deferred income	23	689	504
Reserves			
General Reserves	26	28,999	26,739
Available-for-Sale Reserve	26	-	(17)
Total Liabilities and Equity		**523,943**	**525,741**

The notes on pages 57 to 99 form part of these accounts.

These accounts were approved by the Board of Directors on 31 May 2022 and were signed on its behalf by:

Peter Hubbard
Chairman

Jeremy Wood
Chief Executive

Stephen Heeley
Finance Director

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2022

	2022 £000s	2021 £000s
Cash flows from operating activities		
Profit before tax	**2,906**	**2,211**
Depreciation and amortisation	462	441
Impairment gains on loans and advances to customers	(239)	(302)
Non-cash interest movements on debt securities	329	432
Changes to the fair value adjustment of hedged risk	2,609	452
	6,067	**3,234**
Changes in operating assets and liabilities		
Movement in derivative financial instruments	(2,706)	(509)
Decrease / (Increase) in loans and advances to credit institutions	2,296	(540)
Increase in accruals and deferred income	188	32
(Increase) / Decrease in Other assets	(14)	345
Increase / (Decrease) in Other liabilities and provision for liabilities	18	(163)
Net (Increase) / Decrease in loans and advances to customers	(6,619)	30,130
Net Decrease in shares	(1,682)	(2,337)
Net Decrease in amounts owed to other customers	(1,507)	(14,374)
Tax paid	(368)	(152)
Net cash (outflow) / inflow from operating activities	**(4,327)**	**15,666**
Cash flows from investing activities		
Purchase of debt securities	-	(4,000)
Sales of debt securities	10,000	19,987
Purchase of tangible and intangible fixed assets	(338)	(497)
Net cash outflow from investing activities	**9,662**	**15,490**
Net Increase in cash	**5,335**	**31,156**
Cash and cash equivalents at start of year	103,561	72,405
Cash and cash equivalents at end of year	**108,896**	**103,561**
Cash and cash equivalents comprises:		
Cash in hand and balances with the Bank of England	101,254	94,282
Loans and advances to credit institutions repayable on demand	7,642	9,279
	108,896	**103,561**

The notes on pages 57 to 99 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

1.1 BASIS OF PREPARATION

Dudley Building Society (the "Society") has prepared these 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 ("FRS102"). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU). The presentation currency of these annual accounts is sterling because that is the functional currency of the primary economic environment in which the Society operates. All amounts in the annual accounts have been rounded to the nearest £1,000 unless otherwise stated.

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

The preparation of these accounts in conformity with FRS102 requires the Directors to make judgements and estimates and use assumptions in the application of these policies that have significant effect on the values of reported assets and liabilities with a significant risk of material adjustment in the next year. Although these estimates are based on management judgement and best knowledge of the events, actions or amounts, taking into account historical evidence and any other relevant factors, actual results may differ from these estimates. The judgements and estimates used in these accounts are discussed in Note 1.13.

When preparing the accounts for the current year, the restatement of the prior year comparative balances have been assessed in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Where appropriate, the restated balance has been disclosed.

When preparing the accounts for the current year, the restatement of the prior year comparative balanceshave been assessed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Where appropriate, the restated balance has been disclosed.

The accounts are prepared in respect of the Society only, as the Society's sole subsidiary undertaking, Dudley Financial Solutions Limited, was dissolved on 15 June 2021. The accounts for the prior year were prepared in respect of both the Group and Society.

Going concern

The accounts have been prepared on the going concern basis. This is set out in the Directors' report on page 29 and describes the assessment undertaken by the Directors to reach this conclusion.

LIBOR Reform

The reform and subsequent replacement of the benchmark interest rates, most notably the GBP LIBOR and other inter-bank offered rates (IBOR) has been an area of focus for global regulators since the end of the last financial crisis. The Society's only exposure to the interest rate benchmark reform was in relation to its financial assets and liabilities in the form of the derivative financial instruments that are part of the Society's risk management strategy to hedge the interest rate risk on the fixed rate mortgages.

As part of the reforms, the UK Financial Conduct Authority (FCA) required all firms with an exposure to the impacted benchmark rates to transition those contractual arrangements to an alternative risk-free benchmark rate, which in the Society's case is GBP SONIA (Sterling Overnight Index Average). There were a number of key differences between GBP LIBOR and SONIA. GBP LIBOR was a 'term rate', which means that it was published for a borrowing period (such as three months or six months) and was 'forward looking', because it was published at the beginning of the borrowing period. GBP SONIA is a 'backward-looking' rate, based on overnight rates from actual settled transactions, and it is published at the end of the overnight borrowing period.

Furthermore, GBP LIBOR included a credit spread over the risk-free rate, which is excluded from the SONIA rates. When transitioning existing contracts for derivative financial instruments that were benchmarked against GBP LIBOR to agreements that reference GBP SONIA, adjustments for term differences and credit differences were applied to GBP SONIA to enable the two benchmark rates to be economically equivalent on transition.

The regulatory deadline for the completion of this process was 31 December 2021, after which time firms were compelled to adopt the benchmark rates prescribed by the International Swaps and Derivatives Association ('ISDA').

The Society previously entered into interest rate swaps that were benchmarked against the 3-month GBP LIBOR rate, one of the benchmark interest rates that was subject to the reforms. As at 31 March 2021, the notional value of these interest rate swaps was £51,100,000. The swaps are measured at fair value.

Notes to the Accounts (continued)

The Society's Treasury team identified those GBP LIBOR swaps that matured after the regulatory deadline of 31 December 2021 and as such presented a financial risk to the Society. The process by which the GBP LIBOR swaps were transitioned to GBP SONIA swaps in the year to 31 March 2022 was submitted to ALCO by the Society's Treasury team in the prior year and the proposal was approved by the Committee. The transition was subsequently noted by the Board.

The Society transitioned all interest rate swaps benchmarked against GBP LIBOR to equivalent swaps benchmarked against GBP SONIA in two tranches on 1 April 2021 and 1 June 2021. The basis of the transition was the notional value and the original contractual maturity date. The number of swaps was aggregated based on both of these considerations. The remaining interest rate swaps benchmarked against GBP LIBOR that were not transitioned prior to 31 December 2021 and matured in accordance with their original contractual maturity are also disclosed in the table below:

	GBP LIBOR		GBP SONIA	
Transition date	**Number** #	**Notional** £000s	**Number** #	**Notional** £000s
1 April 2021	20	30,600	14	30,600
1 June 2021	5	4,300	2	4,300
Transitioned	**25**	**34,900**	**16**	**34,900**
Not Transitioned	12	16,200	-	-
Total	**37**	**51,100**	**16**	**34,900**

The fair value of the interest rate swaps noted above is included within the Derivative financial instruments line on the Statement of Financial Position.

The Society had no exposure to GBP LIBOR after 31 December 2021.

1.2 MEASUREMENT CONVENTION

The annual accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available-for-sale debt securities.

1.3 INTEREST

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' (EIR) 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 future credit losses.

The calculation of the effective interest rate includes all contractual transaction costs and fees paid or received where the future cash flow can be measured reliably.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the Income Statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at fair value through the Income Statement, are presented in Total income.

1.4 FEES AND COMMISSION

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

Other fees and commission income, including account servicing fees, sales commission and other fees, are recognised as the related services are performed.

1.5 EXPENSES

Operating Leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in administrative expenses in the Income Statement on a straight-line basis over the term of the lease.

1.6 TAXATION

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expense in tax assessments in periods different from those in which they are recognised in the annual accounts. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

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 reporting date. Deferred tax balances are not discounted.

1.7 FINANCIAL INSTRUMENTS

Recognition

The Society initially recognises loans, advances and deposits issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial Assets

The Society classifies its financial assets into one of the following categories:

- Loans and Receivables
  'Loans and Receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

  Loans and Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see 1.3).

- Available-for-Sale
  Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise the Society's portfolio of debt securities. All available-for-sale investments are measured at fair value after initial recognition. Subsequent changes in fair value, other than impairment losses, are recognised in the Statement of Comprehensive Income (SOCI) until sale or maturity of the assets, following which the cumulative gains or losses are removed from the SOCI and recycled to the Income Statement.

  Interest income is recognised in profit or loss using the effective interest method (see 1.3).

- At Fair Value through Profit and Loss
  Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

  On initial designation of the hedge, the Society formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is / (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results for each hedge are within a range of 80–125%.

Fair Value Hedges

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

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which were also enacted into FRS102, modify specific hedge accounting requirements to allow hedge accounting to continue for impacted hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks (e.g. GBP LIBOR) are amended as a result of the ongoing interest rate benchmark reforms. The phase 1 reliefs were effective for years beginning on or after 1 January 2020.

Phase 1 reliefs

The phase 1 reforms provided temporary relief from applying the specific hedge accounting requirements to those hedging relationships that are directly affected by the IBOR reform. The reliefs result in hedge accounting being permitted to continue as the IBOR reforms should not directly result in hedge accounting terminating. The reliefs available under the phase 1 reforms cease to apply when the uncertainty arising from IBOR benchmark reform is no longer present.

In the year to 31 March 2022, there have been no failures of the hedging effectiveness test where the hedging instrument is a swap instrument benchmarked against GBP LIBOR and the ineffectiveness is a result of the IBOR reform. Accordingly, the Society has not elected to apply the phase 1 reliefs.

Phase 2 reliefs

The IASB has subsequently issued amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by the IBOR reform. In August 2020 the ISAB issued Interest Rate Benchmark reform Phase Two. These amendments (effective for years beginning on or after 1 January 2021) address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent that they are necessary to implement IBOR Reform and where the new basis for calculating cash flows is economically equivalent to the previous basis.

IAS 39 requires hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes.

The Society has adopted phase 2 for the year ended 31 March 2022. The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS 39, providing the amendments were made on an economic equivalent basis.

As noted in 1.1, the Society transitioned all of its GBP LIBOR linked interest rate swap contracts with a maturity date after 31 December 2021 to GBP SONIA linked contracts on an economic equivalent basis in two tranches, on 1 April 2021 and 1 June 2021. The Society has applied the IBOR Phase 2 reliefs to maintain all existing hedging relationships. Prior to implementation, the ALCO reviewed arrangements for the transition and noted that the process was designed in order that the impact on the Society's interest rate risk management and reported results should be minimal.

At 31 March 2022 the Society had no LIBOR linked exposures.

Financial Liabilities

The Society classifies all of its financial liabilities, other than derivatives, as measured at amortised cost or fair value through other comprehensive income.

Measurement:

Amortised Cost Measurement

The 'amortised cost' of a financial asset or financial liability 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 any reduction for impairment.

Fair Value Measurement

'Fair value' is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

When available, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

De-recognition of financial instruments

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the 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 sum of: (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the Income Statement. 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.

Impairment of financial assets not measured at fair value

At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss 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 individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar debt to income based characteristics.

In assessing collective impairment, the Society uses statistical modelling 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 less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly refreshed to reflect experience against actual outcomes to ensure that they remain appropriate.

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

The Society has a closed portfolio of equity release mortgage loans, representing 1.0% of total Loans and advances to customers (2021: 1.0%). A particular clause of the mortgage contract meets the definition of an insurance contract, which is accounted for under FRS103: where a borrower dies or goes into long term care and a redemption receipt is less than the contractual sum owed the Society does not have any further ability to recover amounts from the borrower or the estate.

Under FRS102 the Society has continued to account for these mortgage contracts using its existing accounting policies. The mortgage contract has been classified as being not unbundled. The impact of assessing the contracts as being "not unbundled" is that the income earned on the mortgage contracts is not split between interest and insurance premium and that the mortgage asset is included within loans and advances at the present value of future cash flows.

Measurement and recognition of the income earned on the mortgage contract has been undertaken in line with the Society's other mortgage contracts; the income earned has been included in the Income Statement within the 'Interest receivable and similar income' category. Within the Statement of financial position, the mortgage asset (page 55), along with any impairment if there were any, is disclosed in line with IAS 39. The insurance risk liability associated with the no-negative equity guarantee is calculated by estimating potential shortfalls arising at redemption, discounted at the effective interest rate, and is represented by the impairment provision.

The assessment incorporates assumptions relating to future house price values at the time of account redemption. Its assessment is also based on expected future outcomes relating to the date on which an account redeems which, given the nature of the product is expected to be on death of the borrower, but can be affected by health issues that would see borrowers move into care. It can also be affected by non-health related voluntary pre-payment.

Forbearance

A range of forbearance options is available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The options offered by the Society are:

- Temporary transfer to an interest only arrangement;
- Temporary reduced monthly payment;
- Product review;
- Capitalisation of arrears;
- Extension of mortgage term.

Before being granted a forbearance option, customers will need to provide evidence to support their request which is likely to include a budget planner, statement of assets and liabilities, bank / credit card statements, payslips and similar items, in order that the request can be properly assessed without prejudice. If the forbearance request is granted the account is monitored in accordance with our policy and procedures.

At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and / or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward.

Impairment losses are recognised in the Income Statement 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 the Income Statement.

COVID-19

During the prior year the FCA issued guidance on how they expected mortgage lenders and administrators to treat customers fairly during the COVID-19 pandemic. The guidance remained in place until 31 July 2021, after which time all remaining payment deferral arrangements made under the scheme reverted to the Society's normal forbearance arrangements as described above. At 31 March 2021 there were 21 mortgage accounts under COVID-19 payment deferral arrangements. All accounts returned to normal payment arrangements during the year.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the available-for-sale reserve. The cumulative loss that is reclassified from reserves to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the Income Statement; otherwise, any increase in fair value is recognised through the SOCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in the SOCI.

1.8 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.

1.9 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost / deemed cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets; for example, land is treated separately from buildings.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold premises – 50 years
- Short Leasehold property – the term of the lease
- Equipment, fixtures, fittings and motor vehicles – 3-7 years

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

1.10 INTANGIBLE FIXED ASSETS

Computer Software

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

Amortisation

Amortisation begins when the asset becomes available for operational use in accordance with the Directors' expectations and is charged to the Income Statement over the estimated useful life of the asset, which the Society estimates to be seven years or the contractual term, whichever best reflects the rate that the economic benefit is consumed. Where the capitalised cost represents an enhancement to an existing intangible asset, the estimated useful economic life is considered to be the remaining contractual period of the asset that is being enhanced. 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.

Intangible assets are tested for impairment in accordance with Section 27 of FRS102 when there is an indication of impairment.

1.11 IMPAIRMENT EXCLUDING FINANCIAL ASSETS AND DEFERRED TAX ASSETS

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

1.12 EMPLOYEE BENEFITS

Pensions - Defined contribution plans and other long-term employee benefits

The Society operates a defined contribution scheme funded by contributions from the Society and employees. Society contributions are charged to the Income Statement as incurred.

A defined contribution plan is a post-employment benefit plan under which the Society pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement in the periods during which services are rendered by employees.

1.13 ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

In applying the Society's accounting policies, the Society is required to make estimates and apply judgements that can have a material effect on the carrying amounts of assets and liabilities. Such estimates and judgements are continually evaluated and are based on historical experience and expectations of future events believed to be reasonable under current circumstances.

Notes to the Accounts (continued)

The key judgements and estimates are set out below:

- **Impairment Provisions (£912,000, 2021: £1,195,000)**
  The Society reviews the mortgage portfolio on a monthly basis to assess for impairment. A degree of judgement is required when undertaking this evaluation. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied in respect of house prices, customer payment behaviour and the length of time expected to complete the sale of properties in possession. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and compared with actual experience.

  The three main contributing factors towards the provisioning requirement are: the movement in house prices (measured using a house price index), the PD of the borrower and the value of the discount to be applied to a property if a forced sale is required. To ensure that the impairment methodology appropriately reflects the level of risk associated with each category within the mortgage book (including any payment related issues not yet identified), the probability of default is extrapolated from the actual historical loss experience and is applied across each category.

  The UK Government has provided significant financial support to borrowers during the COVID-19 pandemic and accordingly the Board acknowledges that the level of loan defaults experienced by the Society may have reduced over the last two years as a result of this. The provision model may therefore be understating the PD of mortgages held at 31 March 2022. As this PD is used to estimate impairment that has been incurred but not yet identified, which impacts on the level of collective provision, a post model adjustment has been added to compensate for this. The value of the post model adjustment included in the provision at the balance sheet date is £107,000.

  The UK is currently experiencing unusually high levels of inflation, led by energy prices, which will restrict the money available to borrowers to meet their debt repayments. This is also likely to have driven impairment that has not yet been reported. Accordingly the Board considers it appropriate to incorporate a further post model adjustment to increase the PD of borrowers, to take account of this impact. The adjustment was calculated by considering the change in the debt-to-income ratio, for borrowers considered to be most affected by the price rises, based on a £200 per month increase in living costs.

This ratio is a key input to PD. The value of the post model adjustment included in the provision at the balance sheet date is £433,000.

A sensitivity analysis has been undertaken on the movement of the house price index. A 5% increase in the house price index would result in a decrease in the value of the impairment provision of £294,000 and a 5% decrease in the house price index would result in an increase in the value of the impairment provision of £383,000.

A sensitivity analysis has been undertaken on the monthly increase in living costs included in the impairment provision as a post model adjustment. A £100 per month decrease in the assessment of additional living costs would result in a decrease in the provision of £185,000 whereby a £100 per month increase in the assessment of additional living costs would result in an increase in the provision of £180,000.

COVID-19

In determining the level of impairment provision at 31 March 2022, the Directors have given further consideration to the potential adverse economic impact resulting from the COVID-19 pandemic that has been incurred but is yet to present itself within the performance of the mortgage book. The Directors acknowledge that the post model adjustments noted above adequately incorporate those risks incurred but not yet reported. Accordingly, the post model adjustment relating to the COVID-19 payment arrangements and associated economic risks that was included in the calculation of the impairment provision at 31 March 2021 has been removed. The value of the post model adjustment included in the provision at the prior year balance sheet date was £418,000.

Further information on forbearance can be found in note 27.9.

2. **Interest Receivable** and Similar Income

	2022 £000s	2021 £000s
On loans fully secured on residential property	15,200	15,637
On other loans	31	35
On debt securities	71	105
On other liquid assets	190	68
Net interest expense on derivatives	(855)	(942)
	14,637	**14,903**

All interest receivable on debt securities is in respect of income from fixed income securities and available for sale securities. Interest on loans fully secured on residential property includes interest accrued on impaired and past due residential mortgage assets of £72,000 (2021: £74,000).

3. **Interest Payable** and Similar Charges

	2022 £000s	2021 £000s
On shares held by individuals	3,227	4,202
On deposits and other borrowings	162	123
Net interest income on derivatives	(39)	(100)
	3,350	**4,225**

4. **Fair Value Gains** on Financial Instruments

	2022 £000s	2021 £000s
Gain on derivatives in designated fair value hedge relationships	2,620	506
Adjustments to hedged items in fair value hedge accounting relationships	(2,486)	(452)
Gain on derivatives not in designated fair value hedge relationships	3	3
	137	**57**

The net gain from derivative financial instruments of £137,000 (2021: Gain £57,000) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting is not achievable on certain items.

5. Administrative Expenses

	2022 £000s	2021 £000s
Wages and salaries	3,888	3,889
Social security costs	394	376
Contribution to defined contribution plans	266	240
	4,548	**4,505**
Other administrative expenses	3,615	3,802
	8,163	**8,307**

	2022 £000s	2021 £000s
Other administrative expenses include:		
Operating lease costs:		
Land and buildings	166	167
Motor vehicles	–	3
	166	**170**
Auditor's remuneration: The remuneration of the external auditor which is included within other administrative expenses above is set out below (excluding VAT):		
Audit of these annual accounts	147	141
Amounts receivable by the Society's auditor and its associates in respect of:		
Audit-related assurance services	30	6
	177	**147**

The audit-related assurance services for 2022 related wholly to an engagement to provide independent assurance over the Society's data supplied in respect of the Bank of England's Term Funding Scheme with additional incentives for SMEs.

6. Employees

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

	2022	2021
Full Time		
Principal Office & administration centre	57	57
Branch Offices	10	9
	67	**66**
Part Time		
Principal Office & administration centre	19	22
Branch Offices	25	25
	44	**47**
Total full time and part time	**111**	**113**

7. Remuneration of and Transactions with Directors

	2022 £000s	2021 £000s
(a) Remuneration of Directors		
Directors' emoluments		
Services as Directors (Non-Executive Directors)	183	190
Services in connection with Management (Executive Directors)	641	590
	824	**780**
Details of individual Directors' emoluments are as follows:-	**2022**	**2021**
Non-Executive	£000s	£000s
Paul Doona (Resigned: 15 July 2021)	12	37
Zamir Chaudhry	31	31
Tariq Khatri	32	32
Peter Hubbard	48	43
Nicole Coll	35	31
Joanna Baldwin (Appointed: 4 May 2021)	25	-
David Milner (Resigned: 16 July 2020)	-	16
Total	**183**	**190**

Non-Executive Directors receive only fees for their services.

7. **Remuneration** of and Transactions with Directors (continued)

2022	Salary £000s	Benefits £000s	Pension Contributions £000	Total £000s
Executive				
Jeremy Wood	246	1	-	247
Samantha Ward (Commercial Director to 27 August 2021; Maternity leave from 1 October 2021)	104	1	11	116
Kieron Blackburn (Finance Director to 15 July 2021; Interim Commercial Director from 28 August 2021)	144	-	-	144
Stephen Heeley (Appointed 5 July 2021; Finance Director from 16 July 2021)	121	-	13	134
Total Executive 2022	**615**	**2**	**24**	**641**

2021	Salary £000s	Benefits £000s	Pension Contributions £000	Total £000s
Executive				
Jeremy Wood	245	1	-	246
Darren Garner (Resigned: 16 July 2020)	80	-	-	80
Samantha Ward	104	1	11	116
Kieron Blackburn (Appointed: 17 July 2020)	148	-	-	148
Total Executive 2021	**577**	**2**	**11**	**590**

b) Directors' loans and transactions

At 31 March 2022, there was one (2021: one) outstanding mortgage loan granted in the ordinary course of business to Directors or connected persons amounting to £204,932 (2021: £210,317).

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the Register, for the financial year ended 31 March 2022 will be available for inspection upon request for a period of 15 days up to and including the Annual General Meeting.

8. Taxation

	2022 £000s	2021 £000s
The taxation charge for the year comprises:-		
Current tax at 19% (2021: 19%)	545	368
Deferred Taxation (See note 19)	97	59
Total Tax	**642**	**427**
Reconciliation of Current Tax charge		
Profit on ordinary activities before tax	**2,906**	**2,211**
Profit on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 19% (2021: 19%)	552	420
Fixed asset differences	6	6
Expenses not deductible for tax purposes	2	1
Impact of change in tax rate	97	-
Other short term timing differences	(15)	-
Current Tax Charge	**642**	**427**

Current tax has been provided at the rate of 19%. 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 increased rate of corproation tax has now been substantially enacted and therefore deferred tax balances at 31 March 2022 have been calculated at a rate of 25% (2021: 19%).

9. Cash in Hand and Balances with Bank of England

	2022 £000s	2021 £000s
Cash in hand	532	447
Bank of England Reserve Account	100,722	93,835
Cash and cash equivalents per cash flow statements	**101,254**	**94,282**

10. Loans and Advances to Credit Institutions

	2022 £000s	2021 £000s
Repayable on demand	7,642	9,279
In not more than three months	–	2,296
Total loans and advances to credit institutions included within cash and cash equivalents	**7,642**	**11,575**

At 31 March 2022 £Nil (2021: £2,296,000) of cash has been pledged by the Society against derivative contracts.

11. Debt Securities

	2022 £000s	2021 £000s
Gilts	–	10,399
	–	**10,399**
Debt securities have remaining maturities as follows:		
In not more than one year	–	10,399
In more than one year but less than five years	–	–
	–	**10,399**

The Directors consider the securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are therefore classified as 'financial fixed assets' rather than current assets.

During the year, the Society drew £Nil (2021: £40,000,000) under the Bank of England's Term Funding Scheme with additional incentives for SMEs. As a participant to that scheme the Society previously pledged debt securities to the Bank of England as collateral and the gilt formed part of that collateral.

Movements in debt securities during the year are summarised as follows:

	2022 £000s	2021 £000s
At 1 April	10,399	26,891
Additions	–	4,000
Disposals and maturities	(10,000)	(19,987)
Movement in interest	(27)	(66)
Amortisation	(302)	(366)
Net losses from changes in fair value recognised in Other Comprehensive Income	(70)	(73)
At 31 March	**–**	**10,399**

12. Derivative Financial Instruments

2022	Contractual / Notional Amount £000s	Assets Fair Values £000s	Liabilities Fair Values £000s
Derivatives designated as fair value hedges:			
Interest rate swaps	88,600	1,442	-
Derivatives not designated as fair value hedges:			
Interest rate swaps	-	-	-
Total recognised derivative assets	**88,600**	**1,442**	**-**

2021	Contractual / Notional Amount £000s	Assets Fair Values £000s	Liabilities Fair Values £000s
Derivatives designated as fair value hedges:			
Interest rate swaps	125,800	65	(1,328)
Derivatives not designated as fair value hedges:			
Interest rate swaps	-	-	-
Total recognised derivative assets / (liabilities)	**125,800**	**65**	**(1,328)**

At 31 March 2022 £Nil of collateral was posted against the Society's derivative contracts (2021: £2,296,000). The Society provided no collateral to any other parties during the year, other than the Bank Of England - see notes 11 and 13 (2021: £Nil).

13. Loans and Advances to Customers

The maturity of advances secured on residential property, and advances secured on land from the reporting date is as follows:-

	2022 £000s	2021 £000s
Loans fully secured on residential property	412,195	405,551
Provision for impairment losses (see Note 14)	(912)	(1,195)
Fair value adjustment for hedged risk	(1,490)	1,075
	409,793	**405,431**
Loans fully secured on land	680	749
	410,473	**406,180**

	2022 £000s	2021 £000s
On call and at short notice	-	-
In not more than three months	3,684	4,230
In more than three months but not more than one year	10,146	9,195
In more than one year but not more than five years	66,482	66,538
In more than five years	332,524	326,595
	412,836	**406,558**
Less allowance for impairment (see Note 14)	(912)	(1,195)
Unamortised Effective Interest rate balances	(1,451)	817
	410,473	**406,180**

The maturity analysis above is based on contractual maturity, not expected redemption levels.

In common with most mortgage lenders, the Society anticipates that many loans will be repaid earlier than the contractual maturity dates disclosed above.

During the year, the Society drew £Nil (2021: £40,000,000) under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME scheme) and as a participant to that scheme the Society pledged £72,922,000 of mortgage assets were pledged to the Bank of England as collateral (2021: £88,232,000).

14. Impairment Gains on Loans and Advances

	Loans fully secured on residential property £000s	Other loans fully secured on land £000s	Total £000s
Individual provision			
At 1 April 2021	560	-	560
Amounts recovered	(44)	-	(44)
Credit for the year	(140)	-	(140)
At 31 March 2022	**376**	**-**	**376**
Collective provision			
At 1 April 2021	632	3	635
Credit for the year	(98)	(1)	(99)
At 31 March 2022	**534**	**2**	**536**
Individual provision			
At 1 April 2020	551	1	552
Amounts recovered	(51)	-	(51)
Charge / (credit) for the year	60	(1)	59
At 31 March 2021	**560**	**-**	**560**
Collective provision			
At 1 April 2020	992	4	996
Credit for the year	(360)	(1)	(361)
At 31 March 2021	**632**	**3**	**635**
Credit to the Income Statement in 2021 / 22			**(239)**
Credit to the Income Statement in 2020 / 21			**(302)**

In determining the level of the impairment provision of £912,000 (2021: £1,195,000) the potential adverse economic impact as a result of the cost of living squeeze has been considered. Additional risk factors to allow for uncertainties in the probability of default and the ability of homeowners to meet their debt repayments due to increases in the cost of living have been incorporated within the provision to reflect management's expectations of the likely outcome. Please refer to note 1.13 for the sensitivities relating to these. The additional provision requirement as a result of these additional risk factors is £540,000 (2021: £418,000) and was made as part of the full year credit to the income statement of £293,000 (2021: £302,000). The value of additional risk factors disclosed within the specific provision is £142,000 (2021: £Nil) and disclosed within the collective provision is £398,000 (2021: £302,000).

15. Investments in Subsidiary Undertakings

	2022 £	2021 £
Cost and net book value at 31 March	**-**	**100**

The Society's sole subsidiary undertaking, Dudley Financial Solutions Limited was dissolved on 15 June 2021. Accordingly, the cost of the investment in the share capital of the company was impaired to the Income Statement.

16. Other Debtors

	2022 £000s	2021 £000s
Prepayments and Accrued Income		
Due within 1 year	524	504
Due in more than 1 year	5	11
	529	**515**

17. Tangible Fixed Assets

	Leasehold Land and Buildings £000s	Equipment, Fixtures, Fittings and Vehicles £000s	Computer Equipment £000s	Total £000s
Cost or valuation				
At 1 April 2021	1,430	228	556	2,214
Additions	–	–	14	14
At 31 March 2022	**1,430**	**228**	**570**	**2,228**
Depreciation				
At 1 April 2021	634	88	341	1,063
Charge for the year	106	17	63	186
At 31 March 2022	**740**	**105**	**404**	**1,249**
Net Book Value				
At 31 March 2022	**690**	**123**	**166**	**979**
At 31 March 2021	**796**	**140**	**215**	**1,151**

All land and buildings are occupied by the Society for its own use.

18. Intangible Fixed Assets

	2022 £000s
Cost or valuation	
At 1 April 2021	4,626
Additions	326
At 31 March 2022	**4,952**
Amortisation	
At 1 April 2021	3,052
Charge for the year	276
At 31 March 2022	**3,328**
Net Book Value	
At 31 March 2022	**1,624**
At 31 March 2021	**1,574**

Intangible assets at 31 March 2022 comprise of the cost of investment in the development of Computer Software and in the new online e-savings portal. As at 31 March 2022 £Nil (2021: £27,000) of assets are in the course of construction. Amortisation is charged against these assets when they become ready for use by the business over an estimated useful life of either 7 years or the remaining contractual term for these costs capitalised as part of the upgrade to the Unisys system.

19. Deferred Tax Liabilities

	2022 £000s	2021 £000s
Deferred taxation at 19% (2021: 19%) in respect of timing differences	**405**	**308**
Comprising:		
Accelerated capital allowances	460	343
Other timing differences	(55)	(35)
At 31 March – Deferred tax liability	**405**	**308**
The movement on the deferred tax liability during the year was as follows:		
At 1 April as previously reported – liability	308	249
Taxation charge (see note 8)	97	59
At 31 March	**405**	**308**

20. Shares

	2022 £000s	2021 £000s
Held by individuals	444,707	446,377
Fair value adjustment for hedged risk	–	39
	444,707	**446,416**
Shares are repayable with remaining maturities from the reporting date as follows:		
Accrued interest	1,187	1,466
On demand	242,143	226,870
In not more than three months	124,406	125,830
In more than three months but not more than one year	48,067	42,574
In more than one year but not more than five years	27,076	49,259
In more than five years	1,828	417
	444,707	**446,416**

21. Amounts owed to other customers

Amounts owed to other customers are repayable from the reporting date in the ordinary course of business as follows:-

	2022 £000s	2021 £000s
Amounts owed to Bank of England	40,148	40,001
Amounts owed to other customers	8,217	9,884
	48,365	**49,885**
Accrued interest	164	43
Repayable on demand	–	–
In not more than three months	5,948	6,950
In more than three months but not more than one year	936	2,454
In more than one year	41,317	40,438
	48,365	**49,885**

22. Other Liabilities

	2022 £000s	2021 £000s
Falling due within one year:-		
Corporation tax	546	368
Social security costs	134	108
Other creditors	98	102
	778	**578**

23. Accruals and Deferred Income

	2022 £000s	2021 £000s
Accruals falling due in less than 1 year	**689**	**504**

24. Provision for Liabilities

Financial Services Compensation Scheme (FSCS) Levy

As at the balance sheet date, the Society has no further exposure to the FSCS Levy.

25. Employee Benefits

Retirement Benefits

All current members of staff are offered membership of a defined contribution pension scheme. The assets of the scheme are held separately from those of the Society in an independently administered fund.

Contributions payable by the Society (including death in service premium) and the charge for the year was £280,000 (2021: £253,000). There were outstanding contributions of £30,000 (2021: £21,000) at the end of the year.

26. Reserves

	2022 £000s	2021 £000s
At 1 April	26,722	24,933
Profit for the financial year	2,264	1,784
Other Comprehensive Income	13	5
At 31 March	**28,999**	**26,722**
General Reserves	28,999	26,739
Available for Sale Reserves	–	(17)
	28,999	**26,722**

27. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. Dudley Building Society is a retailer of financial instruments in the form of mortgages and savings products and uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage risks arising from its operations.

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

Derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation.

Derivatives are not used in trading activity or for speculative purposes.

The Society reduces its exposure to interest rate risk applying fair value hedging techniques as follows:

Activity	Risk	Hedging technique
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Society pays fixed rate and receives variable interest
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Society received fixed rate and pays variable interest

The fair value of derivative financial instruments held at 31 March 2022 is shown in Note 4.

27. Financial Instruments (continued)

The Society has a formal governance structure for managing financial and other risks, including an established risk appetite, risk limits, reporting lines, mandates and other control procedures. The ALCO monitors the financial risks (including the use of financial instruments), funding and liquidity in line with the Society's policy statements and reports any significant matters to the Board at its next meeting.

Financial assets and liabilities are measured on an on-going basis at either fair value or at amortised cost as shown in the table below:

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	• Fixed interest rate • Fixed term • Short to medium term maturity	• Loans and receivables at amortised cost • Accounted for at settlement date
Loans and advances to customers	• Secured on residential property or land • Typical standard contractual term of 25 years • Fixed or variable rate of interest	• Loans and receivables at amortised cost • Accounted for from date of advance
Shares	• Fixed or variable term • Fixed or variable interest rates	• Amortised cost • Accounted for from the date of deposit
Amounts owed to credit institutions	• Fixed interest rate • Fixed term • Short to medium term maturity	• Amortised cost • Accounted for at settlement date
Amounts owed to other customers	• Fixed or variable rate of interest • Fixed term • Short to medium term maturity	• Amortised cost • Accounted for at settlement date
Derivative Financial Instruments	• Fixed interest received / paid converted to variable interest paid / received • Based on the notional value of the derivative	• Fair value through profit and loss • Accounted for at trade date

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. Note 1.7 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

27.1 Financial Instruments

Carrying values by category

31 March 2022	Held at amortised cost		Held at fair value				
	Loans and receivables £000	Other Financial assets and liabilities at amortised cost £000	Available-for-sale £000s	Derivatives designated as fair value hedges £000s	Unmatched derivatives £000s	Non-financial assets and liabilities £000s	Total £000s
Assets							
Cash in hand and balances with the Bank of England	101,254	–	–	–	–	–	101,254
Loans and advances to credit institutions	7,642	–	–	–	–	–	7,642
Debt securities	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	1,442	–	–	1,442
Loans and advances to customers	410,473	–	–	–	–	–	410,473
Other assets	–	–	–	–	–	3,132	3,132
Total Assets	**519,369**	**-**	**-**	**1,442**	**-**	**3,132**	**523,943**
Liabilities							
Shares	–	444,707	–	–	–	–	444,707
Amounts owed to other customers	–	48,365	–	–	–	–	48,365
Derivative financial instruments	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	1,872	1,872
Total Liabilities	**-**	**493,072**	**-**	**-**	**-**	**1,872**	**494,944**

27.1 Financial Instruments (coninued)

Carrying values by category

31 March 2021	Held at amortised cost		Held at fair value				
	Loans and receivables	Other Financial assets and liabilities at amortised cost	Available-for-sale	Derivatives designated as fair value hedges	Unmatched derivatives	Non-financial assets and liabilities	Total
	£000	£000	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with the Bank of England	94,282	–	–	–	–	–	94,282
Loans and advances to credit institutions	11,575	–	–	–	–	–	11,575
Debt securities	–	–	10,399	–	–	–	10,399
Derivative financial instruments	–	–	–	65	–	–	65
Loans and advances to customers	406,180	–	–	–	–	–	406,180
Other assets	–	–	–	–	–	3,240	3,240
Total Assets	**512,037**	**-**	**10,399**	**65**	**-**	**3,240**	**525,741**
Liabilities							
Shares	–	446,416	–	–	–	–	446,416
Amounts owed to other customers	–	49,885	–	–	–	–	49,885
Derivative financial instruments	–	–	–	1,328	–	–	1,328
Other liabilities	–	–	–	–	–	1,390	1,390
Total Liabilities	**-**	**496,301**	**-**	**1,328**	**-**	**1,390**	**499,019**

27.2 Financial Instruments

Valuation of financial instruments carried at fair value

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

Valuation techniques

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

Level 1: The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 portfolio mainly comprises debt securities for which traded prices are readily available.

Level 2: These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists, and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio mainly comprises interest rate derivatives, the fair value for which has been determined using the generally observable SONIA yield curves derived from quoted interest rates which match the timings of the cash flows and maturities of the instruments.

Level 3: These are valuation techniques for which one or more significant input is not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society has no assets or liabilities that qualify as Level 3.

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments fair value:

	Level 1 £000s	Level 2 £000s	Total £000s
31 March 2022			
Financial assets			
Available for sale			
Debt Securities	-	-	-
Fair value through profit and loss			
Interest Rate Swaps	-	1,442	1,442
	-	**1,442**	**1,442**
Financial liabilities			
Fair value through profit and loss			
Interest Rate Swaps	-	-	-
	-	**-**	**-**
31 March 2021	£000s	£000s	£000s
Financial assets			
Available for sale			
Debt Securities	10,399	-	10,399
Fair value through profit and loss			
Interest Rate Swaps	-	65	65
	10,399	**65**	**10,464**
Financial liabilities			
Fair value through profit and loss			
Interest Rate Swaps	-	1,328	1,328
	-	**1,328**	**1,328**

Financial assets pledged as collateral
At 31 March 2022, £72,922,000 of mortgage assets held by the Society were pledged to the Bank of England as collateral under the Term Funding Scheme with additional incentives for SMEs (TFSME scheme). As at 31 March 2021, £88,232,000 of mortgage assets and £10,399,000 of debt securities were pledged to the Bank of England as collateral under the TFSME scheme.

27.3 Financial Instruments

Credit Risk

Credit Risk is the main risk for a mortgage lender; the risk of financial loss arising as a result of the Society's borrowers failing to meet their obligations. The cost of managing those exposures which are considered to carry high risk requires intensive management.

All loan applications are assessed with reference to the Society's lending policy. Treasury counterparty limits are approved and monitored by ALCO and the Board. Further information on the Society's management of credit risk can be found in the Strategic report on page 16.

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

	2022 £000s	2021 £000s
Cash in hand and balances with the Bank of England	101,254	94,282
Loans and advances to credit institutions	7,642	11,575
Debt securities	-	10,399
Derivative financial instruments	1,442	65
Loans and advances to customers	410,473	406,180
Total statement of financial position exposure	**520,811**	**522,501**
Off balance sheet exposure – mortgage commitments	**23,264**	**10,643**
	544,075	**533,144**

27.4 Financial Instruments

Loans and Advances to credit institutions, debt securities and derivative financial instruments

Industry Sector	2022 £000s	2022 %	2021 £000s	2021 %
Banks	7,642	7.1	11,640	10.0
Central Banks	100,722	92.9	93,835	81.0
Central Governments	-	-	10,399	9.0
Total	**108,364**	**100.0**	**115,874**	**100.0**

Geographic Region - Treasury Assets	2022 £000s	AAA %	AA- %	A+ %	Other %	2021 £000s
United Kingdom	108,364	-	92.9	6.8	0.3	115,809

Geographic Region - Derivatives	2022 £000s	AAA %	AA %	A %	Other %	2021 £000s
United Kingdom	88,600	-	-	100.0	-	125,800

At 31 March 2022 none of the Society's treasury portfolio exposures were either past due or impaired (2021: Nil). There are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

27.5 Financial Instruments

Loans and Advances to Customers

Mortgages Geographic Region	2022 %	2021 %
East Anglia	11	9
East Midlands	5	5
Greater London	18	20
Northern	2	2
North West	8	7
Outer South East	23	22
South West	10	10
Wales	3	3
West Midlands	15	17
Yorkshire and Humberside	5	5
	100	**100**

27.6 Financial Instruments

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.

	2022		2021	
	Loans fully secured on residential property	Loans fully secured on land - Other	Loans fully secured on residential property (Restated)	Loans fully secured on land - Other
	£000s	£000s	£000s	£000s
Neither past due nor impaired	384,376	680	349,247	686
Past due but not impaired				
< 3 months	3,951	-	2,705	-
> 3 months but < 6 months	-	-	387	-
> 6 months but < 12 months	1,204	-	310	-
> 12 months	-	-	106	-
Individually impaired				
Not past due	21,067	-	48,261	63
< 3 months	1,196	-	3,795	-
> 3 months but < 6 months	-	-	110	-
> 6 months but < 12 months	204	-	303	-
> 12 months	111	-	169	-
Possession	86	-	158	-
Allowance for impairment				
Individual	376	-	560	-
Collective	534	2	632	3
Total allowance for impairment	**910**	**2**	**1,192**	**3**

The prior year comparative for Loans fully secured on residential property - Neither past due not impaired of £349,247,000 has been restated to exclude the fair value adjustment of £1,075,000.

27.7 Financial Instruments

Fair value of collateral held

The Society holds collateral against each loan and advance in the form of property. The use of such collateral is in line with terms that are usual and customary to standard lending activities. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in the Halifax House Price Index.

	2022		2021	
	Collateral value held against Loans fully secured on residential property	**Collateral value held against Loans fully secured on land**	**Collateral value held against Loans fully secured on residential property**	**Collateral value held against Loans fully secured on land**
	£000s	£000s	£000s	£000s
Neither past due nor impaired	1,050,783	1,569	935,042	1,434
Past due but not impaired				
< 3 months	10,997	-	8,329	-
> 3 months but < 6 months	-	-	663	-
> 6 months but < 12 months	6,274	-	602	-
> 12 months	-	-	191	-
Individually impaired				
Not past due	31,167	-	67,081	114
< 3 months	1,744	-	5,557	-
> 3 months but < 6 months	-	-	160	-
> 6 months but < 12 months	301	-	366	
> 12 months	140	-	182	-
Possession	89	-	115	-
Total collateral value	**1,101,495**	**1,569**	**1,018,288**	**1,548**

Details of financial and non-financial assets obtained during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year-end are shown below.

	2022	2021 (Restated)
	£000s	£000s
Property	**89**	**270**

The Society's policy is to pursue the timely realisation of the collateral in an orderly manner.

The prior year comparative of £270,000 has been restated to the correct fair value of properties in possession.

27.8 Financial Instruments

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in the Halifax House Price Index.

	2022 %	2021 %
LTV ratio		
0-50%	48.22	45.96
51-75%	42.82	45.73
76-90%	7.98	8.03
91-100%	0.95	0.13
>100%	0.03	0.15
Weighted Average LTV	**50.26**	**50.78**

27.9 Financial Instruments

Forbearance

An explanation of what forbearance is, and the Society's forbearance strategies is provided in Note 1.7. This includes a description of forbearance arrangements specifically connected to COVID-19.

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

Type of forbearance	2022 Number	2022 £000s	2021 Number	2021 £000s
Reduced Monthly Payment	3	1,056	21	4,122
	3	**1,056**	**21**	**4,122**

COVID-19

At 31 March 2022 the Society had no mortgages (2021: 21) in respect of Reduced Monthly Payment forbearance arrangement which relate to payment holidays requested as a result of the COVID-19 situation (2021: £4,122,000).

Other

At 31 March 2022 there are 106 cases that are in an overpayment arrangements (2021: 124).

In accordance with previous years and with generally accepted practice for statutory disclosure, the above do not include cases where the full monthly contractual payment is being made but with Government support.

At 31 March 2022 the Society had 26 mortgages (2021: 28) with balances of £1,414,000 (2021: £2,126,000) in respect of deceased borrowers of which 6 (2021: 7) with balances of £516,000 (2021: £494,000) had been outstanding for more than 18 months since the date of the borrower's death.

27.10 Financial Instruments

Liquidity risk

Liquidity Risk is the risk that the Society will be unable to meet its financial obligations as they fall due in both 'business as usual' conditions and stressed situations.

At the Society, the main form of liquidity risk arises from the mismatch in the maturity period of long-term mortgage loans and short-term savings deposits. The Society mitigates this risk by ensuring it holds adequate high-quality liquid assets to cover a variety of severe but plausible stress scenarios.

Further information on the Society's management of liquidity risk can be found in the Strategic report on page 18.

The Society's liquid assets comprise of high quality liquid assets and certificates of deposits. The High-Quality Liquid Assets consist of balances in the Society's Bank of England reserve account and UK Government Gilts.

At 31 March 2022 liquid assets as a percentage of shares, deposits and loans was 22.1% compared to 23.4% at 31 March 2021.

Maturity analysis for financial assets and financial liabilities

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

27.10 Financial Instruments (continued)

31 March 2022

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with Bank of England	100,722	–	–	–	–	532	101,254
Loans and advances to credit institutions	7,642	–	–	–	–	–	7,642
Debt securities	–	–	–	–	–	–	-
Derivative financial instruments	–	3	25	1,414	–	–	1,442
Loans and advances to customers	–	3,684	10,146	66,482	332,524	(2,363)	410,473
Tangible Assets	–	–	–	–	–	979	979
Intangible Assets	–	–	–	–	–	1,625	1,625
Other Assets	–	–	–	–	–	528	528
Total Assets	**108,364**	**3,687**	**10,171**	**67,896**	**332,524**	**1,301**	**523,943**
Liabilities							
Shares	242,143	124,406	48,067	27,076	1,828	1,187	444,707
Amounts owed to other customers	–	5,948	936	41,317	–	164	48,365
Derivative financial instruments	–	–	–	–	–	–	-
Other Liabilities	–	–	–	–	–	1,872	1,872
Reserves	–	–	–	–	–	28,999	28,999
Total Liabilities	**242,143**	**130,354**	**49,003**	**68,393**	**1,828**	**32,222**	**523,943**
Net Liquidity Gap	**(133,779)**	**(126,667)**	**(38,832)**	**(497)**	**330,696**	**(30,921)**	**-**

27.10 Financial Instruments (continued)

31 March 2021

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Assets							
Cash in hand and balances with Bank of England	93,835	–	–	–	–	447	94,282
Loans and advances to credit institutions	9,279	2,296	–	–	–	–	11,575
Debt securities	–	–	10,399	–	–	–	10,399
Derivative financial instruments	–	5	30	30	–	–	65
Loans and advances to customers	–	4,230	9,195	66,538	326,595	(378)	406,180
Tangible Assets	–	–	–	–	–	1,151	1,151
Intangible Assets	–	–	–	–	–	1,574	1,574
Other Assets	–	–	–	–	–	515	515
Total Assets	**103,114**	**6,531**	**19,624**	**66,568**	**326,595**	**3,309**	**525,741**
Liabilities							
Shares	226,870	125,830	42,574	49,259	417	1,466	446,416
Amounts owed to other customers	–	6,950	2,454	40,438	–	43	49,885
Derivative financial instruments	–	5	111	1,212	–	–	1,328
Other Liabilities	–	–	–	–	–	1,390	1,390
Reserves	–	–	–	–	–	26,722	26,722
Total Liabilities	**226,870**	**132,785**	**45,139**	**90,909**	**417**	**29,621**	**525,741**
Net Liquidity Gap	**(123,756)**	**(126,254)**	**(25,515)**	**(24,341)**	**326,178**	**(26,312)**	**-**

27.11 Financial Instruments

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

31 March 2022

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Liabilities						
Shares	240,454	126,820	48,978	29,754	–	446,006
Amounts owed to other customers	2,003	4,048	1,175	42,374	–	49,600
Derivative financial instruments	–	–	–	–	–	–
Other Liabilities	–	–	–	–	1,838	1,838
Total Liabilities	**242,457**	**130,868**	**50,153**	**72,128**	**1,838**	**497,444**

31 March 2021

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	No specific maturity and loss provision	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Liabilities						
Shares	227,494	125,934	43,817	51,006	–	448,251
Amounts owed to other customers	–	7,000	2,503	40,564	–	50,067
Derivative financial instruments	–	146	554	934	–	1,634
Other liabilities	–	–	–	–	2,755	2,755
Total Liabilities	**227,494**	**133,080**	**46,874**	**92,504**	**2,755**	**502,707**

27.12 Financial Instruments

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. As the Society is not exposed to foreign currencies the main market risk faced by the Society is interest rate risk. The Society's products are all based on market interest rates so are not exposed to other pricing risks.

Further information on the Society's management of interest rate risk can be found in the Strategic report on page 17.

The analysis below summarises the Society's exposure to interest rate risk and presents the Society's assets and liabilities by repricing date, along with the derivative financial instruments that are used in the management of interest rate risk exposures.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Society's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200-basis point (bp) parallel fall or rise in interest rates.

Other interest rate exposures, for example, basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics) and prepayment risk (the risk of loss arising from early redemption of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

27.12 Financial Instruments (continued)

31 March 2022

	Not more than three months £000s	More than three months but not more than one year £000s	More than one year but not more than five years £000s	No specific maturity and loss provision £000s	Total £000s
Financial Assets					
Liquid Assets	108,310	-	-	586	108,896
Loans and advances	257,759	42,354	112,723	(2,363)	410,473
Derivative financial instruments	3	25	1,414	-	1,442
Other Assets	-	-	-	3,132	3,132
Total Financial Assets	**366,072**	**42,379**	**114,137**	**1,355**	**523,943**
Financial Liabilities					
Shares and amounts owed to customers	418,471	45,658	27,593	1,350	493,072
Derivative financial instruments	-	-	-	-	-
Other liabilities	-	-	-	1,872	1,872
Reserves	-	-	-	28,999	28,999
Total Financial Liabilities	**418,471**	**45,658**	**27,593**	**32,221**	**523,943**
Impact of Derivative Financial Instruments	82,300	(16,900)	(65,400)	-	-
Interest rate sensitivity gap					
Sensitivity to Profit and Reserves	29,901	(20,179)	21,144	(30,866)	-
Parallel shift of +2%	**(73)**	**256**	**(1,045)**	**-**	**(862)**

27.12 Financial Instruments (continued)

31 March 2021

	Not more than three months £000s	More than three months but not more than one year £000s	More than one year but not more than five years £000s	No specific maturity and loss provision £000s	Total £000s
Financial Assets					
Liquid Assets	104,899	10,301	–	1,056	116,256
Loans and advances	245,239	34,649	126,670	(378)	406,180
Derivative financial instruments	5	30	30	–	65
Other Assets	–	–	–	3,240	3,240
Total Financial Assets	**350,143**	**44,980**	**126,700**	**3,918**	**525,741**
Financial Liabilities					
Shares and amounts owed to customers	403,643	41,537	49,566	1,555	496,301
Derivative financial instruments	5	111	1,212	–	1,328
Other liabilities	–	–	–	1,390	1,390
Reserves	–	–	–	26,722	26,722
Total Financial Liabilities	**403,648**	**41,648**	**50,778**	**29,667**	**525,741**
Impact of Derivative Financial Instruments	92,200	(20,900)	(71,300)	-	-
Interest rate sensitivity gap					
Sensitivity to Profit and Reserves	38,695	(17,568)	4,622	(25,749)	-
Parallel shift of +2%	**(98)**	**228**	**(670)**	**-**	**(540)**

28. Operating Leases

Annual commitments under non-cancellable operating leases are as follows:-

	2022 £000s	2021 £000s
Up to five years	26	26
Over five years	140	125

29. Related Parties

	No of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members 2022 £000s		No of key management personnel and their close family members	Amounts in respect of key management personnel and their close family members 2021 £000s
Mortgage Loans					
At 1 April 2021	1	210	At 1 April 2020	2	304
Net Movements in the year	-	(5)	Net Movements in the year	(1)	(94)
At 31 March 2022	**1**	**205**	**At 31 March 2021**	**1**	**210**
Deposit accounts and investments					
At 1 April 2021	9	23	At 1 April 2020	10	49
Net Movements in the year	-	(9)	Net Movements in the year	(1)	(26)
At 31 March 2022	**9**	**14**	**At 31 March 2021**	**9**	**23**

At 31 March 2022, there was one (2021: one) outstanding mortgage loan granted in the ordinary course of business to Directors or connected persons amounting to £204,932 (2021: £210,317).

All Directors are required to maintain a savings balance of at least £1,000 each in the Society. At 31 March 2022 the aggregate balances held by Non-Executive and Executive Directors in Dudley Building Society savings accounts was £14,385 (2021: £22,736).

Key management personnel and their close family members paid interest totalling £6,008 (2021: £6,167), received interest totalling £8 (2021: £68), and paid no fees and commissions during the year. There were no material transactions between the Society and its subsidiary undertaking Dudley Financial Services Limited.

30. Capital

The Board's policy is to increase the Society's capital base to further strengthen the confidence Members and other stakeholders have in the Society as well as support continued investment in the development of the business. The Society's capital requirements are set and monitored by the PRA. The Society operates a formal ICAAP to determine and demonstrate how these requirements are met. The ICAAP also sets out the framework for the Society's internal governance and oversight of its risk and capital management policies and is used to assist with the management of capital and risk exposures.

The Society's actual and forecasted capital positions are reviewed against a risk appetite that requires capital to be maintained at a specific minimum level above regulatory capital requirements. There have been no material changes to the Society's management of capital in the year.

	Note	2022 £000s	2021 £000s
Common Equity Tier 1			
General reserve	26	28,999	26,739
Available for sale reserve	26	–	(17)
Prudent valuation adjustment	–	(1)	(12)
Intangible assets	18	(1,624)	(1,574)
Total common equity tier 1 capital		**27,374**	**25,136**
Tier 2 Capital			
Collective provision	14	536	635
Total tier 2 capital		**536**	**635**
Total regulatory capital		**27,910**	**25,771**

31. Country by Country Disclosures

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV).

Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to report annually, specifying, by Member State and by third country in which they have an establishment, the following information on a Society basis for the financial year:

Name, nature of activities and geographical location:

The single subsidiary of the Society was dissolved on 15 June 2021. The Society only operates in the United Kingdom. The Society is a Credit Institution whose principal activities are deposit taking and secured lending.

Average number of employees:

As disclosed in note 6 to the accounts.

Annual turnover:

Equivalent to total income and, along with profit before tax, is as disclosed in the Income Statement on page 53.

Corporation tax paid:

As disclosed in the cash flow statement on page 56.

Public subsidies:

There were none received in the year.

Independent auditors' report to the directors of Dudley Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, Dudley Building Society's country-by-country information for the year ended 31 March 2022 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 March 2022 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Society operates. As part of our risk assessment, we reviewed and considered the Society's corporate plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Evaluation of the reasonableness of the Society's corporate plans, covering a period up to March 2025, including testing key assumptions and performance of sensitivity analysis using our understanding of the Society and its financial and operating performance obtained through the course of our audit. We have also considered the historical accuracy of previous corporate plans as part of this assessment;
- Evaluation of the Society's access to the Bank of England funding facilities; and
- Testing of the appropriateness of the disclosures made in the Annual report and accounts.

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 the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Society's ability to continue as a going concern.

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

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation and accounting policies in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, 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.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this country-by-country information.

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

Based on our understanding of the Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management and those charged with governance including consideration of known or suspected non-compliance with laws and regulations and fraud;
- Reading key correspondence with the Financial Conduct Authority and the Prudential Regulatory Authority;
- Review of internal audit reports in so far as they related to the annual report;
- Reviewing relevant meeting minutes including those of the Audit and Compliance committee;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries meeting certain risk-based criteria, including unusual or unexpected account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Pricewaterhousecoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
31 May 2022

Annual Business Statement

FOR THE YEAR ENDED 31 MARCH 2022

1. Statutory Percentages

	2022	2021	Statutory limit
	%	%	%
Lending limit	0.29	0.31	25.00
Funding limit	9.81	10.05	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings other than those from individuals.

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

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

The statutory limits are laid down under the Building Societies Act 1986 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and that the Society is funded substantially by its members.

2. Other Percentages

	2022 %	2021 %
As a percentage of shares and borrowings		
Gross capital	5.88	5.38
Free capital	5.66	4.96
Liquid assets	22.09	23.42
As a percentage of mean total assets		
Profit after tax	0.43	0.34
Management expenses	1.64	1.64

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

'Shares and borrowings' represent the aggregate of shares and amounts owed to credit institutions and other customers.

'Gross capital' comprises general reserves and Available-for-Sale reserves. 'Free capital' comprises gross capital and impairment provision less intangible fixed assets.

'Liquid assets' represents the total of cash in hand, treasury bills, loans and advances to credit institutions and debt securities as shown in the Statement of Financial Position.

'Mean total assets' are the average of the total assets at the beginning and end of the relevant financial years.

'Profit after taxation' represents the profit for the financial year as shown in the income statement.

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation and other operating charges.

3. Information Relating to the Directors at 31 March 2022

Name	Date of Appointment	Occupation	Other Directorships
Peter Hubbard	16/01/2020	Non-Executive Director	Edgepool Limited
Nicole Coll	16/01/2020	Executive Directort	STM Group (IOM) Limited London & Colonial Holdings Limited British Friendly Society Options Corporate Pensions UK Limited The Granville School The ENA Makin Educational Trust
Joanna Baldwin	04.05.2021	Non-Executive Director	
Zamir Chaudhry	13/09/2018	Strategy and Risk Advisor	UMNA Limited
Tariq Khatri	13/12/2018	Management Consultant	
Jeremy Wood	06/06/2012	Chief Executive	Lucklaw Estates Ltd Bidston Court Management Company Ltd Seebeck 64 Ltd Hannington Associates Ltd
Stephen Heeley	05/07/2021	Finance Director	
Kieron Blackburn	13/07/2021	Interim Commercial Director	
Samantha Ward (Maternity Leave)	01/02/2020	Commercial Director	

Documents may be served on the above-named Directors at the Society's Registered Office at 7 Harbour Buildings, The Waterfront, Brierley Hill, DY5 1LN. Jeremy Wood, Stephen Heeley, Kieron Blackburn and Samantha Ward have service contracts dated 17 May 2012, 5 July 2021, 13 July 2021 and 1 February 2020 respectively. Twelve months' notice is required to be given by the Society to Jeremy Wood and six months' notice by the individual. Six months' notice is required to be given by the Society to Samantha Ward and six months' notice by the individual. Kieron Blackburn is subject to a one-year fixed term contract and requires three months' notice by the Society to Kieron Blackburn and three months' notice by the individual. There are no contractual arrangements in respect of bonuses, deferred consideration or amended arrangements in the event of a transfer of engagement.

Annual Business Statement (continued)

FOR THE YEAR ENDED 31 MARCH 2022

4. Information Relating to the Other Officers at 31 March 2022

Name	Occupation	Other Directorships
Lorraine Breese-Price	Head of Operations	-
Ali Fellows	Head of Compliance and Financial Crime	-
Liz Hart	Head of Planning, Information and Prudential	-
Claire Hyde	Head of Risk and Governance and Society Secretary	-
Lisa Talbot	Head of Employee Experience and Organisational Development	
Muzammil Shabudin	Chief Risk Officer and Money Laundering Reporting Officer	-
Oliver Slimm	Head of Credit Risk and Underwriting	-
Dan O'Mahony	Head of IT and Cyber Security	-
Jonathan Young	Financial Controller	-

Appendix to the Annual Report (Unaudited)

Performance highlights

Net interest margin ratio

Net interest margin is calculated as the interest income and similar income less interest expense and similar charges for the financial year as a percentage of the mean total assets.

	2022 £000s	2021 £000s
Interest receivable and similar income	14,637	14,903
Interest payable and similar charges	(3,350)	(4,225)
Net interest receivable	**11,287**	**10,678**
Opening total assets	525,741	541,307
Closing total assets	523,943	525,741
Mean total assets	**524,842**	**533,524**
Net interest margin	**2.15%**	**2.00%**

Management expenses ratio

Management expenses ratio is calculated as the aggregate of administrative expenses, depreciation and amortisation and other operating charges as a percentage of mean total assets.

	2022 £000s	2021 £000s
Administrative expenses	8,163	8,307
Depreciation and amortisation	462	441
Management expenses	**8,625**	**8,748**
Opening total assets	525,741	541,307
Closing total assets	523,943	525,741
Mean total assets	**524,842**	**533,524**
Management expenses ratio	**1.64%**	**1.64%**

Gross capital

Gross capital ratio is calculated as the aggregate of general reserves and available-for-sale reserves as a percentage of the aggregate of shares and amounts owed to other customers.

	2022 £000s	2021 £000s
General reserve	28,999	26,739
Available-for-sale reserve	-	(17)
Gross capital	**28,999**	**26,722**
Shares	444,707	446,416
Amounts owed to other customers	48,365	49,885
Total shares and deposits	**493,072**	**496,301**
Gross capital ratio	**5.88%**	**5.38%**

Liquid assets (% of SDL)

Liquid assets ratio is defined as the aggregate of cash in hand and balances with Bank of England, loans and advances to credit institutions and debt securities as a percentage of the aggregate of shares and amounts owed to other customers.

	2022 £000s	2021 £000s
Cash in hand and balances with the Bank of England	101,254	94,282
Loans and advances to credit institutions	7,642	11,575
Debt securities	-	10,399
Liquid assets	**108,896**	**116,256**
Shares	444,707	446,416
Amounts owed to other customers	48,365	49,885
Total shares and deposits	**493,072**	**496,301**
Liquid assets ratio	**22.1%**	**23.4%**

Mean total assets

Mean total assets is defined as the average of the total assets at the beginning and end of the relevant financial years.

	2022 £000s	2021 £000s
Opening total assets	525,741	541,307
Closing total assets	523,943	525,741
Mean total assets	**524,842**	**533,524**

Customer feedback

The customer feedback rating is defined as the net promoter score. Based on the responses to a single survey question that is measured on an eleven-point scale from 0 to 10, the net promoter score is calculated as the percentage of responders who are deemed to be promoters (who answer the survey question with a score of 9 or 10) less the percentage of responder who are deemed to be detractors (who answer the survey question with a score of less than or equal to 6).

Get in touch

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Gornal Wood
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gornalwood@dudleybuildingsociety.co.uk

Opening hours*

Monday, Tuesday, Thursday
and Friday: 9.00am - 5.00pm

Wednesday: 9.30am - 5.00pm

Saturday: 9.00am - 12.00pm

Sunday: Closed

*Branch opening hours - Due to COVID-19, there may be periods when branch opening hours are reduced or changed. Please monitor our website and social media channels to check the opening times and status of your local branch.

Stay in touch

From time to time, we'd like to contact you with all the latest news and updates from Dudley Building Society.

We think it is important for us to stay connected and for you to get the most out of your membership.

Please ensure your marketing preferences and contact details are up to date when talking to a member of our team or by registering with us online.

dudleybuildingsociety.co.uk

Follow us on social media
for the latest on what we're up to.

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